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Emerging Markets Credit Trading Desk

CEEMEA Trends and Corporate Investment Strategy

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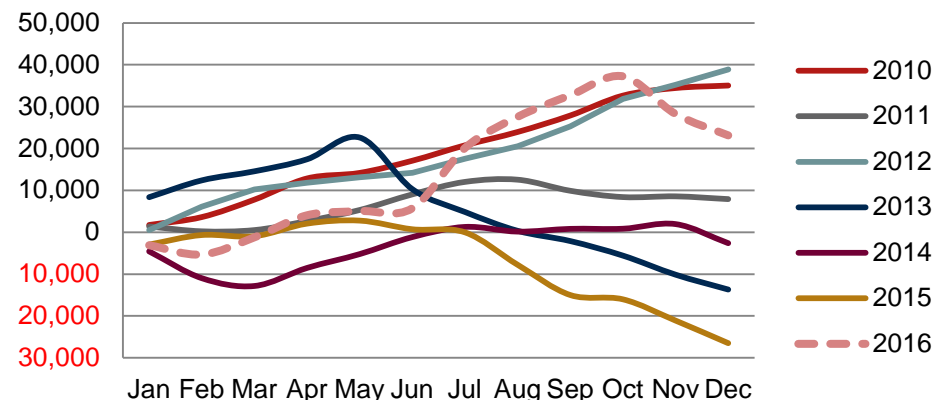
Lower returns, higher volatility as commodities likely to be more supportive of credit fundamentals, but higher UST, stronger USD, new US administration and geopolitical risks could pose challenges

- **UST Forecasts:** Our Global Rates team is forecasting U.S. Treasury yields to rise by 40-65 bps, led by the 5-year part of the curve (5Y UST YE17 target=2.25%, 10Y=2.75%). Our economists expect two hikes in 2017 even if the markets might price in 3-4 hikes (Nomura doesn't expect them to be delivered). At some point mid-year attention should shift to the new FOMC appointments and potential next Fed chair. The rates need to remain accommodative to finance fiscal expansion. A faster rise in inflation could force the Fed to tighten quicker which would negatively impact EM bonds.
- **USD Trajectory:** USD is likely to continue appreciating against most EM currencies in 2017. It could serve as a headwind for many EM corporates that don't have dollar revenues. On the flipside, a stronger dollar could prevent inflation from rising too fast in the US and keep the Fed from hiking more rapidly.
- **Commodity prices:** House view is for oil price to average \$54/bbl in 2017 and \$57/bbl in 2018. Metal prices are expected to rise in 2017 too, particularly Gold, Silver, Nickel, Platinum, and Palladium.
- **US economy with Trump:** The US economy looks primed for a major shakeup in 2017. With Donald Trump's surprising victory, the Republicans control both the Congress and the White House. Republicans are likely to put in place expansionary fiscal policies (primarily through tax cuts) that would boost aggregate demand. Not all of Trump's policies will be positive for growth, however, as stricter immigration policy, tough trade negotiations and potential sanctions will offset some of the positive effects of the fiscal stimulus. Restrictive trade measures (a repeal of NAFTA, tariffs on China and a hard stance on immigrants) are likely to have less impact on CEEMEA versus Latam and Asia but might still impact global sentiment.
- **Geopolitical risks:** Geopolitical tensions in the Middle East could weigh on the GCC countries and African oil exporters including Nigeria and Angola. Internal politics in South Africa and Turkey will also be important to monitor.
- **Europe (Brexit, Parliamentary Elections, Periphery):** US protectionist policies, "hard" Brexit in the UK and political uncertainty are the main downside risk. The heavy political calendar (elections in France in April-May and Germany in Aug-Oct) could result in a renewed concern about peripheral countries.
- **Sovereign rating changes:** Potential rating downgrades on the countries with a negative outlook: Qatar, UAE, Saudi Arabia, Oman, and South Africa. Sovereign rating changes are likely to impact corporate and quasi-sovereign spreads. Turkey was already downgraded to HY by Fitch at end-January.

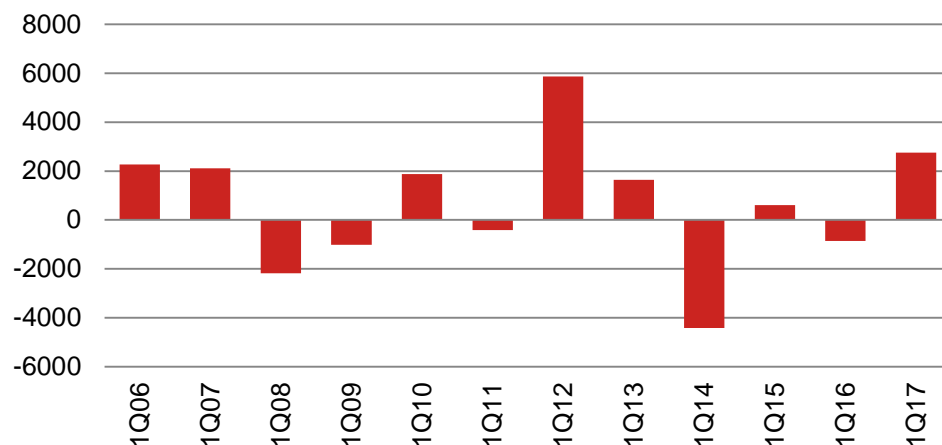
2016 total EM dedicated fund flows stood at USD 23.1bn, down from a peak of USD 37.5bn in early Nov

- **Record year that wasn't:** 2016 was set to smash the EM flows record up until mid-Nov, but it wasn't quite what we expected at the end. With a cheer of a token USD 42mil inflow into hard currency in the last week of December, the first one in seven weeks, **the 2016 EM fund flows totalled USD 23.1bn.**
- **Large year-end outflows post-US elections:** Since early Nov, the outflows to the tune of USD 14.9bn cut short the spectacular search for yield, which benefitted EM and which, at its peak, saw EM funds flows reaching a cumulative level of nearly USD 37.5bn, the best ever for the asset class. Post-US elections, this best ever turned quickly into the worst ever – the week of 16 Nov saw a decline of USD 6.6bn, or 7.3% of AUM, the largest outflow ever recorded.
- **2017 Outlook:** The first five weeks saw USD 4.9bn of inflows into EM funds, the second best 1Q result in the past decade. However, the lack of clarity of the direction of US economy its implications for EM might make flows volatile this year.

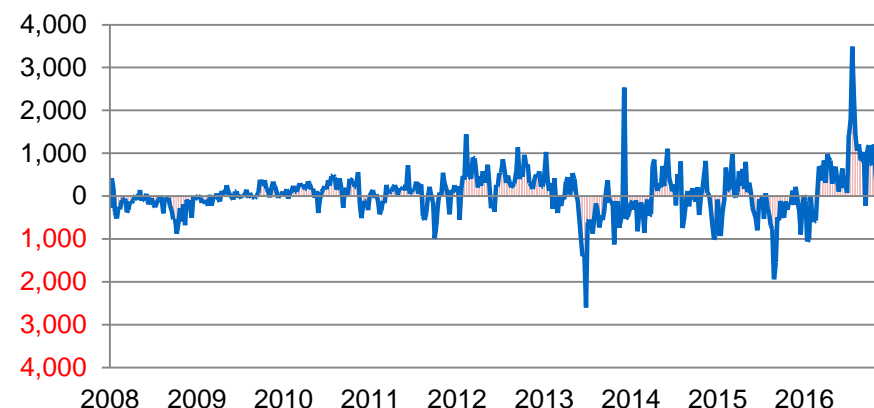
EM dedicated fund flows



Historical EM Hard Currency Flows in 1Q



Weekly hard currency fund flows 2008 - 2016



EEMEA could outperform Latam or Asia given lower connectivity to US rate hikes or Trump policy

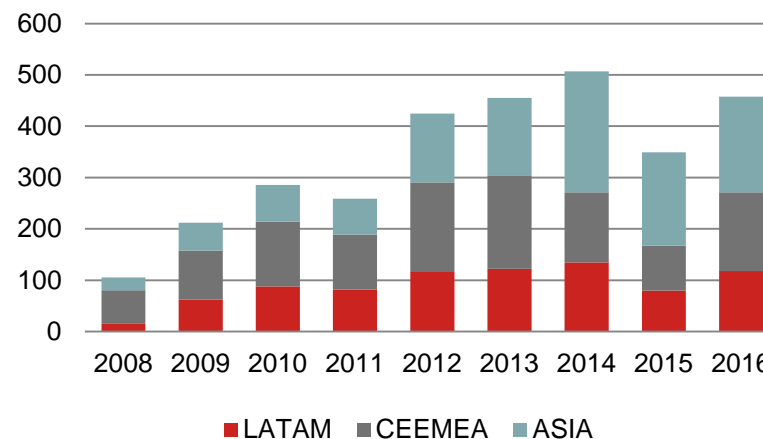
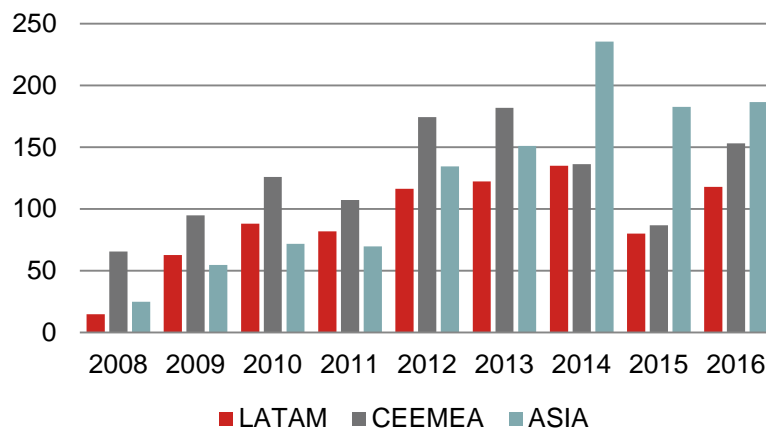
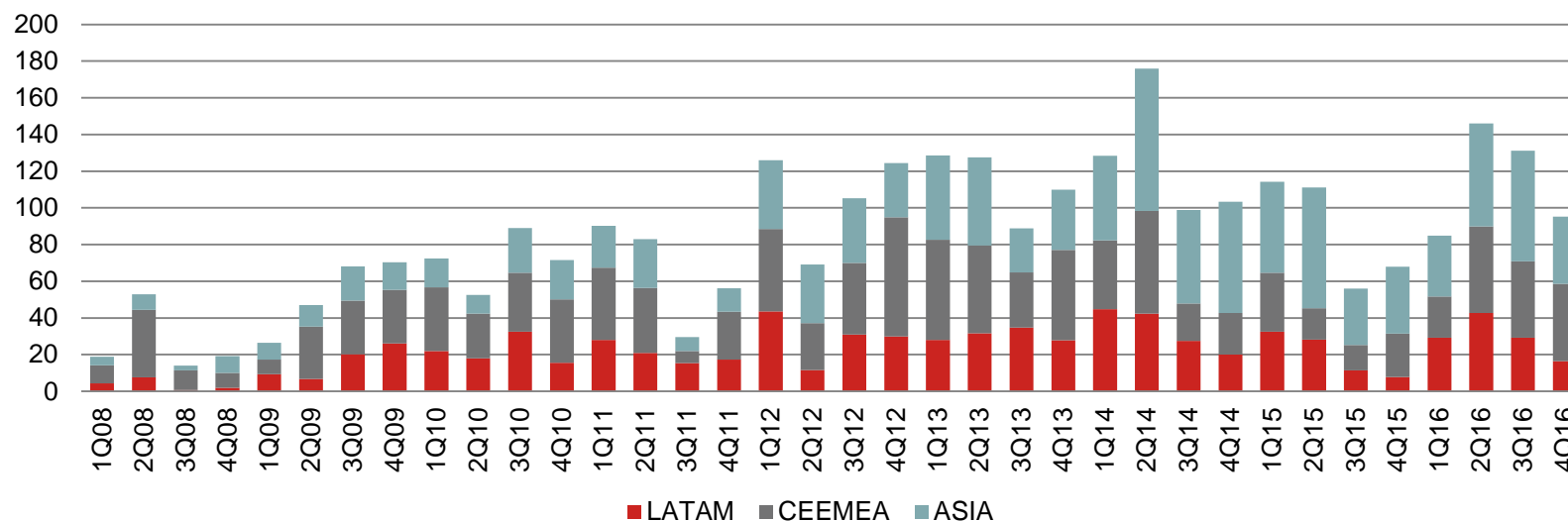
Fig. 1: Forecast summary

	Real GDP (% y-o-y)			Consumer Prices (% y-o-y)			Policy Rate (% end period)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Global	3.1	3.4	3.5	2.2	2.7	2.6	2.51	2.44	2.53
Developed	1.5	1.6	1.6	0.7	1.8	1.7	0.35	0.57	0.95
Emerging Markets	4.4	4.8	4.9	3.3	3.5	3.2	4.27	3.91	3.74
United States	1.5	1.9	1.8	1.3	2.5	2.2	0.63	1.13	1.88
Latin America	-0.5	1.3	1.8	5.0	4.3	3.7	9.04	7.43	7.39
Brazil	-3.3	1.0	1.5	6.8	5.0	4.5	13.75	10.00	10.00
Asia/Pacific	5.4	5.3	5.3	2.3	2.8	2.6	2.47	2.43	2.38
Japan	1.1	1.4	0.6	-0.2	0.4	1.0	-0.10	-0.10	-0.10
Asia ex Japan, Aust, NZ	6.0	5.9	5.9	2.6	3.1	2.8	2.82	2.77	2.68
China	6.7	6.5	6.2	1.9	2.4	1.9	1.50	1.50	1.25
Western Europe	1.7	1.4	1.6	0.3	1.6	1.5	0.04	0.04	0.04
Euro area	1.6	1.5	1.6	0.2	1.4	1.4	0.00	0.00	0.00
United Kingdom	1.8	0.9	1.5	0.7	2.3	2.3	0.25	0.25	0.25
EEMEA	0.7	1.8	2.0	5.0	4.5	4.7	6.79	6.32	5.96
Czech Republic	2.4	2.5	2.4	0.6	1.0	1.5	0.05	0.05	0.05
Hungary	2.1	2.4	2.5	0.4	1.6	3.1	0.90	0.90	0.90
Poland	2.8	3.4	4.0	-0.6	1.0	1.6	1.50	1.75	2.50
Romania	5.0	4.1	3.5	-1.5	1.7	4.4	2.00	3.00	3.00
South Africa	0.5	1.0	1.6	6.3	5.6	5.7	7.00	7.00	7.00
Turkey	2.7	3.0	3.0	7.7	8.1	7.8	8.50	10.00	10.00
Russia	-1.0	1.3	1.4	7.3	5.6	5.5	10.00	8.50	7.50
Israel	3.2	3.1	2.8	-0.5	0.8	1.2	0.10	0.10	1.00

Source: Nomura

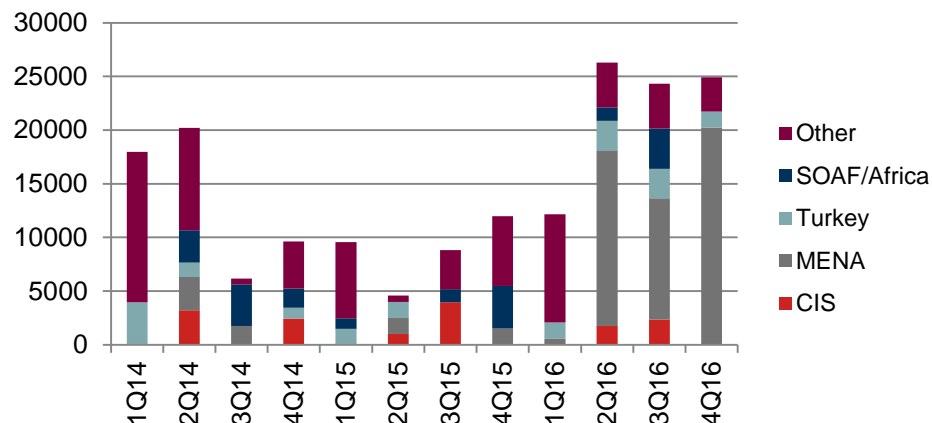
- It could be a year of two halves – Turkey noisy and negative in H1 with South Africa quiet. Vice versa in H2 as Turkey passes the constitutional hurdle and South African politics heats up without much growth.
- Small narratives will remain of interest – especially currency pegs in Nigeria and Saudi Arabia after Egypt's devaluation in 2016. Mozambique should be the key 'credit' or IMF story in the region with other smaller credits in the Balkans latching onto a recovering eurozone.
- CEEMEA could outperform Latam or Asia given lower degrees of connectivity to US rate hikes or Trump policy including protectionism. However, the region and especially its higher beta markets like Turkey and South Africa to a lesser degree, should drive quite differentiated returns within global EM benchmarks – as Fed and ECB QE flow-related support ceases and reverses.
- Countries that offer yield and are 'quiet' on the narrative front may outperform (including South Africa and Russia in H1), though shocks and a focus on idiosyncracics can then mean gains are quickly given back.

CEEMEA issued \$156.3bn in 2016 (+80%YoY from \$86.9bn), Asia \$200bn (+9%) and Latam \$123.4bn (+54%)

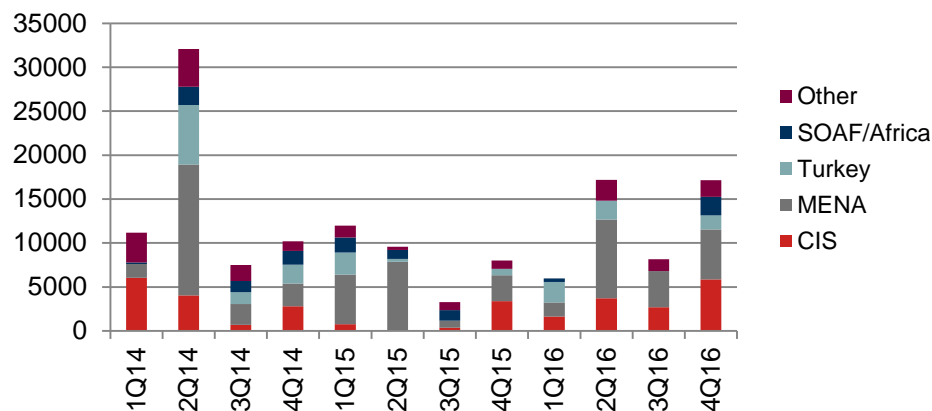


\$42bn of CEEMEA corporate maturities in 2017, \$26bn financial and \$16bn corporate

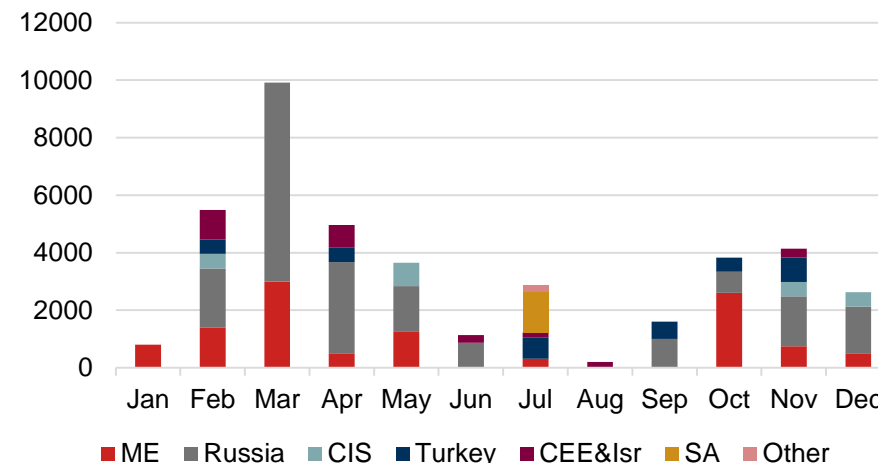
Sovereign Issuance (\$ mil)



Corporate/Financials Issuance (\$ mil)



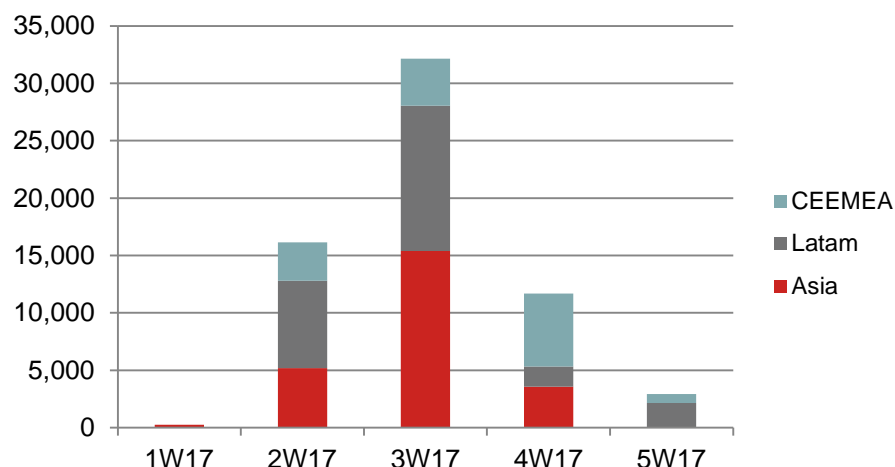
CEEMEA corporate maturities 2017 (\$ mil)



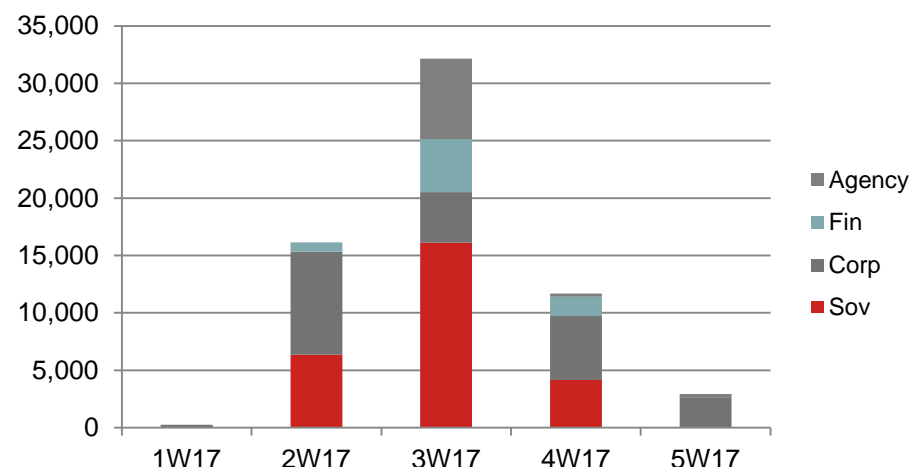
- \$42bn of CEEMEA corporate maturities in 2017, \$26bn in the financial and \$16bn in corporate space
- The majority of those are coming out from Russia and the Middle East (\$19bn and \$11bn respectively)
- US/EU financial sanctions continue to affect some Russian corporate/bank bond issuers. It could change if the sanctions regime changes, which is not our base case in the short-term
- Expect a bumper issuance from regional sovereigns, especially in the Middle East (Kuwait expected to issue three tranches or ~\$10bn in February). Almost all GCC sovereigns are likely to revisit the Eurobond market to help fund their budget deficit.

EM issued so far \$63bn this year, driven by Asia (39% of total); Sovereigns dominate (42% of total)

Weekly EM Issuance/Geography (\$ mil)



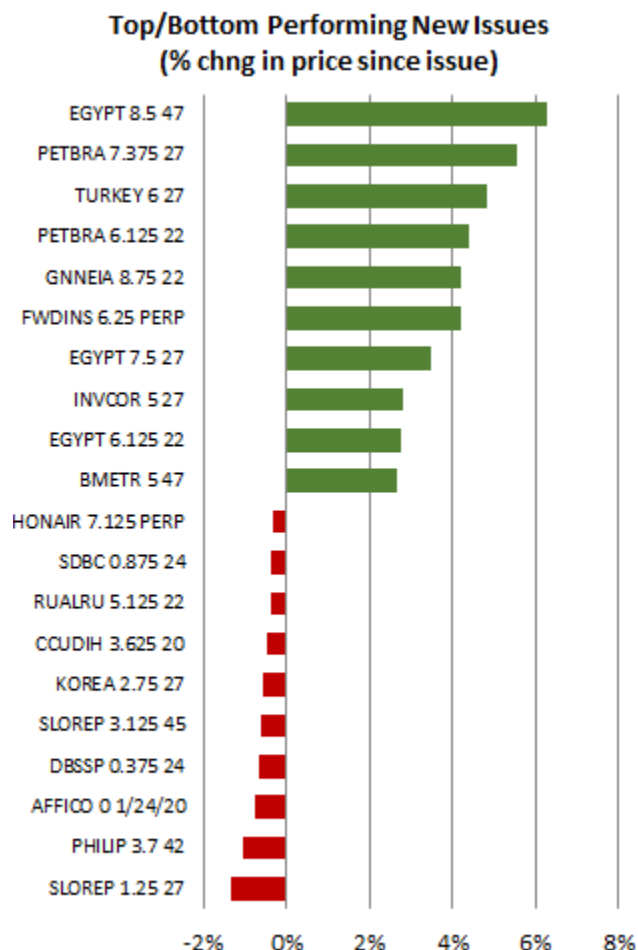
Weekly EM Issuance/Sectors (\$ mil)



- Asia historically dominates the issuance
- \$24.4bn issued out of Asia this year, 39% of total issuance, dominated by large tickets from China Development Bank and the Philippines
- Latam issued \$21.9bn, or 38%, dominated by \$7bn out of Argentine and \$4bn Petrobras
- CEEMEA lagged the other two regions, with only \$14.6bn issued in the first five weeks, driven by \$4bn of Egypt's three tranche issue

- Almost \$27bn, or 42%, was issued by sovereigns this year
- Corporates issued \$21.8bn, or 34%
- Financials so far issued little, around \$7bn (or 11% of total issuance)
- Agency issuance is fairly large, driven by China Development Bank's \$4bn

Egypt 47s are the best performing new bond, up 6.3% from issue; Slovenia 27s EUR are the worst



- **Egypt** is the best performing new issue, with the long end up almost 6 points at the beginning of Feb, in fact all three bonds have been in the Top 10 new issues this year
- In other recent supply from CEEMEA, the **Investment Corporation of Dubai's (ICD)** USD 1bn 5% 2027 sukuk is up by three points from its 25 January 99.565 re-offer
- **Turkey** took markets by surprise mid-January when it pulled off a USD 2bn 6% 2027 bond sale, despite several weeks of TRY underperformance and a stream of pessimistic macroeconomic headlines. The bonds attracted significant investor interest and are trading 4.5pts higher from the re-offer of 98.858
- **Slovenia**, on the other hand, placed a EUR dual-tranche that has traded poor on the back of the underlying EUR weakness

CEEMEA offers strongest credit metrics and should be most insulated from restrictive trade measures

	Sovereign	Corporate	Banks	Sectors	Likes
Middle East	<ul style="list-style-type: none"> Low oil prices dampened the prospects of macroeconomic growth in 2015/2016 GCC responded to a sharp fiscal deterioration by reforms, reducing public investment and subsidies The region has become increasingly reliant on int'l borrowing to fund deficits Potential high supply from the region (Saudi, Kuwait) could weigh on sentiment and spreads into 2017 Strong technical bid from locals and Asian investors expected to continue 	<ul style="list-style-type: none"> GCC corporate fundamentals have generally been resilient Corporates are somewhat insulated from FX volatility due to the currency pegs across the region Credit metrics supported by solid cash management and limited plans for re-leveraging Names with higher indebtedness are largely quasi-sovereigns which in turn rely and benefit from direct/indirect government support (TAQA, IPIC, Mubadala, SECO) 	<ul style="list-style-type: none"> Sustained low oil prices weakened sovereign ability to provide support to banks but propensity is still very high Impaired loans ratios are likely to increase mildly; some deterioration particularly in the contracting segment and SMEs Low deposit growth will put pressure on the ability to lend, but should be matched by low loan growth Capital levels should be sustained at 2016 levels due to little new lending and are above international peers 	<ul style="list-style-type: none"> Lower oil prices, slowing global trade and government spending cuts weakened revenue growth. This is especially the case for trade, transport, oil, retail and real estate As regional private consumption (particularly from Saudi Arabia) faces headwinds from cuts and higher expenses, demand in some segments has weakened (luxury real estate, malls) 	<ul style="list-style-type: none"> Supply hindered performance into 2017 as many credits are expensive, especially in the banking segment Like credits with solid recurring income like Emaar or DP World. Emirate Airlines, 100% owned by the government, is a way to express the view on Dubai sovereign. I also like the names that were upgraded in 2016, showing resilience in their credit profiles such as OOREDOO (Qtel). Out of quasies, OCP stands out Equate Petroleum traded with a decent spread over the implied Kuwait curve in Dec but tightened to FV/rich; the new sukuk might be better way to play the name
Turkey	<ul style="list-style-type: none"> The growth slowdown has intensified, and headwinds remain to the medium-term growth outlook The potential shift to a presidential system and weaker growth are likely to continue to put pressure on TRY Continuous TRY depreciation (30% in the past 4 months) could potentially threaten the stability of financial system Fitch downgraded Turkey to HY at end-Jan 	<ul style="list-style-type: none"> Corporate bonds offer attractive outright spreads, even though they tend to trade with a very small premium over the sovereign Leverage is low (most issuers net leverage at 3Q16 below 2x) and expected to rise Relatively defensive business profiles (telecoms, diversified operations and exports) provide some comfort Due to the dual currency economy, some borrowers have FX buffers such as FX cash/currency hedges Debt maturity profiles are not front loaded with no corporate Eurobonds due in 2017 	<ul style="list-style-type: none"> Among the worst-affected asset classes following the US elections Every 10% of depreciation adds a 40-50bp headwind for T1, ie 150bps since end-Sept 16 NIMs unlikely to improve further as banks face pressure on the asset side to re-price loans and deposits are not cheaper Loss absorbing cushions remained solid with T1 capital anywhere between 10.5% and 13% at 3Q16 but have eroded somewhat since Fitch downgrade represents a headwind for capital 	<ul style="list-style-type: none"> Negative impact across all sectors of lower medium-term economic growth outlook and reduced prospects of increased private consumption. Corporates exposed to the weakening TRY given moderately unfavorable earnings in TRY and USD debt and some FX capex costs (i.e. telcos). 	<p>Halkbank: remains widest traded Tier 1 bank in Turkey, state ownership anchors credit fundamentals</p> <p>Isbank: Very low NPLs</p> <p>Eximbank: FX exposure (80% of loans) and largest impact on capital from potential Fitch downgrade but intrinsic relationship with the sovereign.</p> <p>Turkcell/Turk Telekom: Low leverage, favourable debt profile even if weak TRY is a risk</p> <p>Koc Holding: Conservative balance sheet and high degree of sector diversification</p>
South Africa	<ul style="list-style-type: none"> Heightened political risks up until the electoral conference of the African National Congress (ANC) in December, with the in-fighting within the ANC and the government to continue through the year Some recovery in headline real GDP growth expected, from 0.5% to 1% Moody's set to publish reviews on 7 April, 11 August, 24 November; S&P on 2 June and 24 November and Fitch around May/June and November/December. 	<ul style="list-style-type: none"> Corporates are likely to benefit from risk aversion towards Turkey, at least in 1H17 Substantial part of corporate profiles are non-South African, especially Sub-Saharan Africa (Nigeria etc), with its own economic and geopolitical risks, which might weigh on SA corporate profiles 	<ul style="list-style-type: none"> Strong banking sector, with total capital adequacy ratio up at 15.5% in Sept from 14.2% at end-15 Non-performing loans stood at 3.2% of total assets, barely above the trough of the current cycle of 3.1% 	<ul style="list-style-type: none"> Gold miners (Anglogold Ashanti, Gold Fields) account for a large chunk of the bond universe and should benefit from solid gold prices Possible S&P sovereign rating downgrade (currently rated BBB- with a negative outlook) and political noise are likely to also be the drivers of corporate performance in 2017 	<p>Naspers: High market value; exceeding \$80bn of Naspers' stakes in listed companies Tencent Holdings and Mail.ru; still IG</p> <p>MTN: Widest corporate bonds in South Africa; regulatory noise is the key risk</p> <p>Eskom: Among widest EM quasies, trading on the back of sovereign risk perception</p>

CEEMEA offers strongest credit metrics; and should be most insulated from restrictive trade measures

	Sovereign	Corporate	Banks	Sectors	Likes
Russia	<ul style="list-style-type: none"> • Better commodities outlook should benefit the economy • Favorable supply-redemption dynamics • Relative macroeconomic stability • Potential beneficiary of the US election/lifting sanctions • GDP growth expected to rebound to 1.3% in 2017 (from -1%) • Spreads unlikely to tighten much further after two strong years of performance, but select corporate and bank credits seen as defensive plays 	<ul style="list-style-type: none"> • Credit fundamentals worsened in 2016 amid the drop in energy and metal prices • Gross leverage remains very low, as RUB weakness collapsed opex and capex and preserved the margins for exporters • Weak RUB over the past two year benefitted Oil&Gas and Metals& Mining names with RUB opex and capex and largely FX revenues 	<ul style="list-style-type: none"> • Positive technicals due to negative net supply • More than 80% of the \$10bn of bank paper maturing in 2017 was issued by sanctioned names and will not be refinanced internationally • Improving fundamentals as non-performing assets seemed to trough in mid/late 2016 • CBR likely to cut rates further from current 10% (Nomura expectation is to 8.5% in 2017 and 7.5% in 2018) creating more room for margin improvement 	<ul style="list-style-type: none"> • Metals & Mining are likely to continue deleveraging, have solid cash and free cash flows and lower exposure to fiscal risks. They also have generally low short-term debt and access to local and international markets • Oil & Gas credits are more levered but likely to benefit from the recovery in oil prices • Telecoms positively exposed to RUB appreciation and vice versa • Transport segment mixed, state-owned segment still to benefit from government support while smaller private companies restructuring (Fesco, Brunswick) 	<p>VEB: Standalone profile remains weak, but Russian bank issues are tight and very few provide pick up over sovereign; expectation of continued state support</p> <p>VimpelCom: Earnings remain defensive, refinancing risk is low, and net leverage is moderate; the best exposure to VIP credit is via GTH.</p> <p>Sibneft: Preferred names in the energy sector</p> <p>Evraz: Play on improving local macro</p>
Ukraine	<ul style="list-style-type: none"> • Idiosyncratic risk (the resolution of Privat Bank recapitalisation), as well as broader geopolitics (future direction of the Trump administration towards Ukraine and Russia) weighed on the credit into the year end • New US administration likely to be less involved in foreign policy vis-a-vis Ukraine, which in turn raises questions about the future of IMF-sponsored reform and Ukraine's return to capital markets • But gradual recovery of economic activity, in particular in agriculture, construction and retail trade • Post restructuring in 2015, short-term external debt schedule should be manageable 	<ul style="list-style-type: none"> • With the exception of MHP, all Ukraine borrowers restructured their debt (termed out maturities without principal haircuts) in 2015 • Corporate profiles are still weak and operating environment remains challenging • Local bank financing is short term and expensive, no access to international markets yet (the sovereign is expected to pave the way, but unlikely to be able to issue in 2018) 	<ul style="list-style-type: none"> • Unresolved problem loans (NPLs and restructured loan) represent more than half of sector loans • Lack of creditworthy borrowers, risk aversion and solvency issues still constrain lending • Ukrexim and Oschad have sizeable exposure to sovereign debt (both FX and UAH) issued as part of bank recapitalisation in 1Q16 • Regulatory forbearance on capital levels until end-2018 as capital needs remain high (unreserved NPLs are over 90% of sector capital) • Privatbank bail-in of senior and subordinated Eurobond holders in Dec 16 (the first investor-unfriendly restructuring) 	<ul style="list-style-type: none"> • Recent rise in iron ore and steel prices likely to provide a boost for fundamentals in 2017 • The likes of Metinvest and Ferrexpo operate in this segment and are positively exposed to any weakness in the UAH given FX revenues. • State owned banks (Oschad, Ukexim) have been recapitalised and should benefit from the pick up in domestic growth but 	<p>MHP: Most investable Ukraine name; mixed exposure to both the domestic and export sectors; however, the export share has grown in recent years (to 50% of revenues), while costs remain mostly UAH</p> <p>Oschadbank, Ukrexim: Gain exposure to the sovereign via state-owned banks</p> <p>New Kernel bond (low leverage: 1x versus MHP's 2.8x), listed abroad, 88% of EBITDA in FX. Rated higher than Ukraine and MHP (B+ versus sovereign/MHP at B-) due to high FX revenue coverage of debt service</p>
CIS (Kazakhstan, Georgia, Armenia, Azerbaijan)	<ul style="list-style-type: none"> • Following falls in the oil price and RUB in 2015, CIS had to devalue local currencies to protect competitiveness, export revenues and current-account positions • Propensity of sovereign support post-devaluation was high, from recapitalising local banks to providing indirect assistance via asset purchases from quasi-sovereign energy names to support their liquidity 	<ul style="list-style-type: none"> • The combination of low commodity prices, low growth and currency devaluation materially eroded credit metrics in the region • The key mitigating factor is that corporate universe consists largely of companies with state interests in the strategically important oil and gas industry, state-owned rail or the largest lenders in respective countries • Because of this direct/indirect government sponsorship, issuers have access to government support but in turn any rating action on sovereign will likely have an impact on them 	<ul style="list-style-type: none"> • Currency devaluations hit banks hard in 2015/16 • Large short FX positions and the absence of hedging options are likely to persist • Large additional risks from restructured/distressed exposures (especially in Kazakhstan) • Outlook primarily dependent on the oil price, given the importance of commodities for economic activity, trade and remittances • Gradual stabilisation of performance and financial metrics expected in 2017 	<ul style="list-style-type: none"> • Energy sector should recover as oil price bounces back in 2017 • Rail should benefit from increased economic activity and the pace of recovery of the standalone creditworthiness will depend on the pace of recovery of transportation volumes/freight turnover • Low privatisation risk in the near term 	<p>As oil recovers, investors are likely to search for non-oil opportunities as energy names such as KMG, Socar or Georgia Oil become expensive. State owned rail companies such as Georgia Rail or Temir Zholy offer pick up over quasi-sovereign energy sector and should benefit from the spill over from higher commodity prices.</p>

UKRAINE

UKRAIN 7 ¾ 09/01/24 ; UKRAIN 7 ¾ 09/01/25

- Ukraine was one of the worst performers post-US elections. Uncertainty over the future US administration's relationship with Ukraine as well as the challenging agenda of reforms and their implementation pushed the bonds lower. However, macroeconomic stability has improved in 2016 with growth taking hold and inflation pressures easing. Also, amid uncertainty over Trump's stance on Ukraine, European agreement on the visa-waiver scheme is as a positive signal on the continuing EU support. Recent IMF and Ukrainian statements suggest that Kyiv will receive the next tranche of its \$17.5bn IMF loan within the next couple months.
- On the Ukraine curve, the 24s and the 25s benefit from one of the lowest USD cash prices, which should provide support in case of any further sell-off. The bonds have also the highest yield (8.6%).

MHPSA 8 ¼ 04/02/20, KERPW 8 ¾ 01/31/22

- CEEMEA is starved for solid high beta names that provide a decent yield. This is where select Ukrainian corporates such as MHPSA 8 ¼ 04/02/20 and KERPW 8 ¾ 01/31/22 fit in. Newly placed Kernel has low leverage (1x versus MHP's 2.8x), is listed abroad, and has 88% of EBITDA in FX. It is rather two notches higher than Ukraine (B+ versus B-) due to high FX revenue coverage of debt service. MHP is a solid, established name with diversified FX revenues which recently benefitted from lifting of the EU export ban. The company rolled USD 100mil PXF with ING post- 3Q16 results, leaving a more manageable repayment profile. Debt maturity profile remains back dated, with the largest principal repayment by far, the Eurobond, due in April 2020.
- MHPSA 8 ¼ 04/02/20 trade ~ 8.3% and KERPW 8 ¾ 01/31/22 and ~ 8.4%.

RUSSIA/CIS

GRAIL 7 ¾ 07/11/22

- Georgian Rail (B+/B+) lagged the CIS complex, driven by the weaker sovereign credit versus peers, as well as by its idiosyncratic weakness after Fitch placed the company on watch for downgrade in Sept '16 and downgraded in Jan '17. With the downgrade out of the way, and strong sovereign support, trading should stabilise. Even though GR's free cash flows will be negative in the near-term given large capex, its debt profile is back-loaded, with USD500mil bond only due in 2022.
- GRAIL 7 ¾ 07/11/22 underperformed their transport peers trading at 160bps over the sovereign (12mo average 127bps) versus RURAIL 22 at 72bps (av. 110bps) over and TEMIR 20 at 82bps (av. 180bps). Within the CIS as well as the rail complex, the bonds are the obvious laggard.

SIBNEF 6 11/27/23, TMENRU 7 ¼ 02/02/20

- Russian complex rallied persistently for the last two years, driven by strong local support and favourable supply/redemption dynamics. Potential beneficiary of the US election/lifting sanctions (even though this is not our base case).
- SIBNEF 6 11/27/23 or TMENRU 7 ¼ 02/02/20 trade widest among Russian O&G names, although the bonds are also tightest to Gazprom they have been as investors chase the yield. Beware of the new issuance, from Gazprom, TMK etc.

EVRAZ 6 ¾ 01/31/22, VIP 7 ¼ 04/26/23, PGILLN 5 ¼ 02/07/23

- Among non-O&G stories, Evraz and VIP stand out, even though just as with other corporate names, there is little value left as an outright buy. Both names are the play on the macro recovery in Russia, even though investors should be aware of the supply risk.
- Newly placed Polyus Gold offers a more liquid par bond with still over 300+ in Z-spread.

MIDDLE EAST

Switch out of ADCBUH 2 5/8 03/10/20 into UNBUH 2 3/4 10/05/21

- In the Abu Dhabi bank segment, the UNBUH 2 3/4 10/05/21 bonds placed in September underperformed its peers. The bank is majority owned by Abu Dhabi government and is rated on par with Abu Dhabi Commercial Bank (ADCB), rated A+ by Fitch and A1 by Moody's. In addition, UNB has stable and conservative management and higher capitalisation, with CAR and Tier I ratio of 18.6% and 17.4% respectively at 9M16. Abu Dhabi government announced a consolidation plan among state-owned entities both in the corporate and banking sectors. With or without the merger, UNB 21 (currently trading 35bps over ADCB 20) should trade flat to the ADCB curve. Since late 2013, UNB curve has on average traded 2bps inside ADCB curve
- The switch from ADCBUH 2 5/8 03/10/20 into UNBUH 2 3/4 10/05/21 offers an opportunity to buy a lower cash price bond with a higher yield and coupon and invest into a very clean curve.

DPWDU 6.85 07/02/37

- Dubai-based port company's gross container volumes grew by 3.2%YoY at FYE16. In 4Q16, gross reported volumes grew by 6% YoY driven by strong growth in Asia Pacific and Europe. Despite the challenging market conditions, volumes stabilised in the UAE and the company expects new developments in Rotterdam (Netherlands), Nhava Sheva (India), London Gateway (United Kingdom) and Yarimca (Turkey) to drive growth.
- At 1H16, the company posted 27%YoY increase in EBITDA to USD 1.18bn (56% margin). Net leverage declined to 2.9x in June versus 3.22 at FYE15, with interest cover of 8.3x (FYE15: 5x).
- Real money holding should provide trading stability versus historic volatility.

TURKEY

AKBNK 5 1/8 03/31/25, TCZIRA 4 3/4 04/29/21

- Turkish banks now rallied to their pre-US elections levels; the Z-spread ranges suggest that more or less all banks now trade at the three month minima
- Looking at the 9-month ranges, two bonds stand out, AKBNK 5 1/8 03/31/25 and TCZIRA 4 3/4 04/29/21. Both still trade more or less in the middle of their 9mo trading ranges (the rest of the banks trade closer to the minima in this period)
- Both banks have relatively low exposure to FX loans (34% and 25% of the total loan book respectively) and high levels of T1 capital (3Q16: 13.7% and 13.5% respectively)

Switch out of HALKBK 5 07/13/21 into ISCTR 5 1/2 04/21/22

- Isbank stands out among Turkish banks in terms of solid capital buffers and valuation. Even though fundamentally Akbank has a more favourable fundamental profile, Isbank looks better in terms of trading levels.
- As Turkish banks now rallied meaningfully, the upside is capped at/around current levels. Investors might therefore prefer curve or switch trades rather than an outright long.
- Halkbank's T1 capital is lowest among peers plus loan book expansion has been highest, implying that newly extended loans might turn into a load of nonperformers if operating environment doesn't improve

SOUTH AFRICA

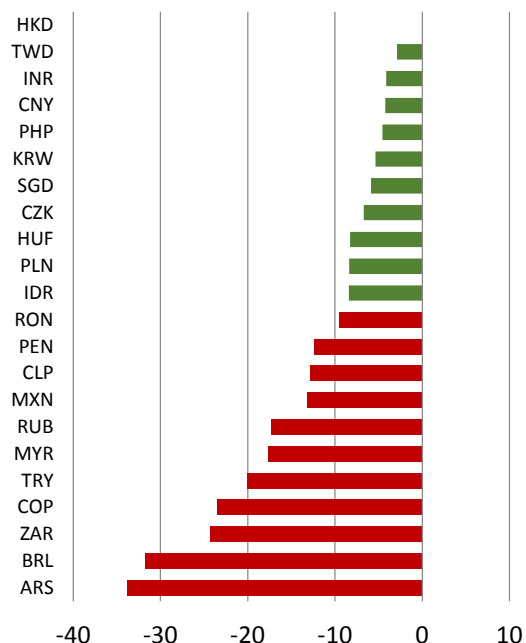
ESKOM 7 1/8 02/11/25

- Eskom is the cheapest South Africa corporate/quasi sovereign bond still trading 210+ over the sovereign, even though this spread almost halved in the past 12 months
- Possible S&P sovereign rating downgrade (currently rated BBB- with a negative outlook) and political noise are likely to be drivers of performance in 1H17
- In addition, the uncertainty around the approval for the Guarantee Framework Agreement (GFA) also contributes to the negative outlook: the GFA is due to expire in March 2017 and in the event this agreement is not renewed, the share of guaranteed debt would likely be lower and the rating agencies might downgrade Eskom's rating further
- Investors might want to wait for the resolution of the GFA; the bonds are likely to be volatile until then, even if the volatility might in turn create a better entry point

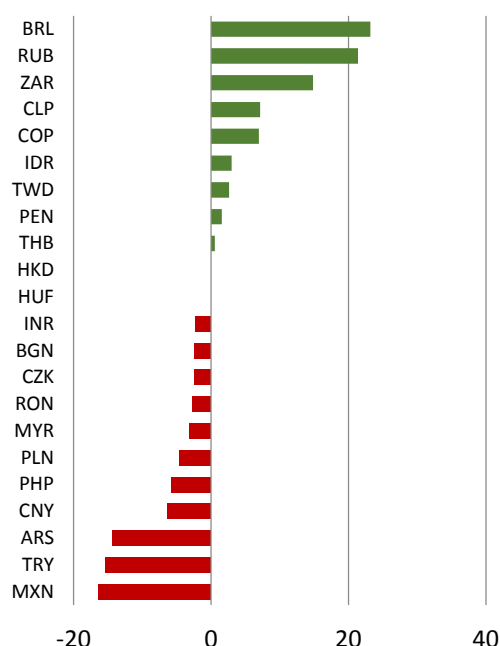
MTNSJ 6 1/2 10/13/26

- In the corporate (non-quasi) universe, MTN trades widest
- Credit metrics are expected to be weak over the next 12-18 months as a result of higher debt levels needed to offset the reduced cash flows from MTN Nigeria (following the regulatory fine), as well as to funding needs for the increased capex rollout in South Africa
- The resolution of the fine in Nigeria and payment terms are manageable given MTN Nigeria has sufficient cash balances to meet the annual obligations over the next three years
- The company has also been trying to repatriate USD 1bn from Iran (incl USD 430mil loan repayment from the 49%-owned venture MTN IranCell Telecommunication Services)

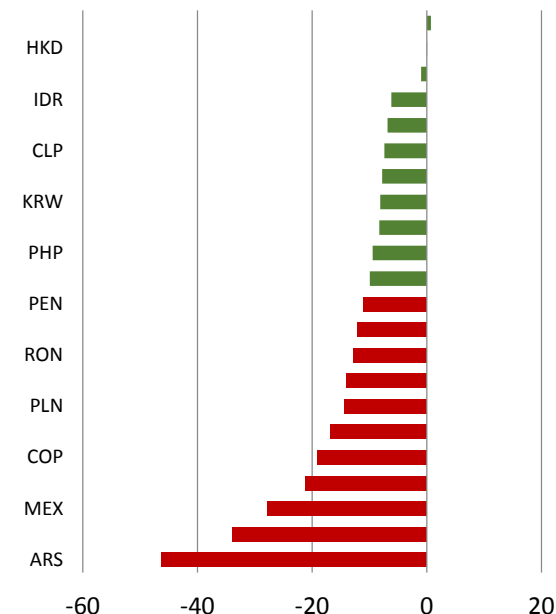
2015 (% chg YoY)



2016 (% chg YoY)



Two year performance (%)



- USDTRY was one of the worst performing currencies again in 2016 and sustained depreciation could hurt corporates with large FX mismatches
- USDZAR is expected to weakened further in 2017 with ANC elective conference dominating throughout the year
- USDRUB was one of the top performers in 2016. RUB strengthening is positive for the likes of VIP, while negative for the energy/mining sector as most of its costs (OpEx and capex) are in RUB
- Middle East currencies are all pegged to the USD, which on the one hand insulates them for FX volatility, but any sustained appreciation of the dollar could impact Dubai via lower tourist arrivals/ lower demand for residential real estate projects

Performance – CEEMEA all (3 month change)

Performance (Total Return)													
Latest													
Top 20	Country	Rating	PX	Y (%)	Dur	Z	7d	28d	91d	YTD	91 day total return		91 day Z-spread change
KKB 5.5 22	KZ	NA / B- / CCC	87.1	8.3	4.8	629	0.1%	18.2%	21.2%	15.5%	KKB 5.5 22	<div></div>	21.2% EBIUH 4.875 23
DIAMBK 8.75 19	NG	NA / B- / *- / B-	82.4	18.5	1.9	1698	1.3%	8.5%	11.9%	9.9%	DIAMBK 8.75 19	<div></div>	11.9% ADGB 6.75 19
ALFARU 8 PERP	RU	NA / NA / B	106.9	7.7	4.1	446	0.7%	1.9%	8.5%	3.5%	ALFARU 8 PERP	<div></div>	8.5% ANGOL 7 19
IRAQ 5.8 28	IQ	NA / NA / NA	84.7	7.9	5.4	715	1.6%	-1.2%	7.8%	2.3%	IRAQ 5.8 28	<div></div>	7.8% RUSSIA 3.5 19
GABON 6.95 25	GA	B1 / NR / B+	95.4	7.7	6.1	550	2.4%	1.0%	6.2%	0.3%	GABON 6.95 25	<div></div>	6.2% RAKS 3.297 18
GABON 6.375 24	GA	NA / NR / B+	94.6	7.3	5.3	537	2.4%	1.0%	6.0%	0.7%	GABON 6.375 24	<div></div>	6.0% GPBRU 4.96 19
EVRAZ 6.75 22	RU	NA / B+ / BB-	107.6	5.0	4.2	307	0.3%	1.9%	6.0%	3.0%	EVRAZ 6.75 22	<div></div>	6.0% GPBRU 7.875 PERP
FXPOLN 10.375 19s	UA	Caa3 / CCC / CCC	104.0	8.3	1.5	596	-0.5%	3.5%	5.7%	3.7%	FXPOLN 10.375 19s	<div></div>	5.7% GAZPRU 3.85 20
GPBRU 7.875 PERP	RU	NR / NA / NA	103.7	8.6	1.1	335	0.2%	1.1%	5.7%	1.5%	GPBRU 7.875 PERP	<div></div>	5.7% GPBRU 7.496 23
KOS 7.875 21	US	NA / CCC+ / B	100.1	7.9	2.2	628	0.1%	0.4%	5.7%	3.0%	KOS 7.875 21	<div></div>	5.7% ADGB 2.125 21
TLWLN 6.25 22	GB	Caa1 / B- / NA	92.5	8.0	4.2	609	0.0%	0.9%	5.6%	0.0%	TLWLN 6.25 22	<div></div>	5.6% TNEFT 8.7 18
FXPOLN 10.375 19	UA	Caa3 / CCC / CCC	104.1	8.3	1.5	593	-0.7%	4.9%	5.6%	3.9%	FXPOLN 10.375 19	<div></div>	5.6% SBERRU 5.5 24
TPZMAR 8.625 18	AE	B3 / B- / NA	100.7	8.2	1.5	676	1.2%	2.4%	5.5%	3.9%	TPZMAR 8.625 18	<div></div>	5.5% SBERRU 4.15 19
TLWLN 6 20	GB	Caa1 / B- / NA	94.6	7.7	3.2	591	-0.6%	0.3%	5.5%	-0.2%	TLWLN 6 20	<div></div>	5.5% CHMFUR 4.45 18
EVRAZ 8.25 21	RU	NA / B+ / BB-	112.6	4.7	3.4	293	0.1%	1.6%	5.4%	2.5%	EVRAZ 8.25 21	<div></div>	5.4% DUGB 3.875 23
GAZPRU 7.288 37	RU	Ba1 / BB+ / BBB-	116.9	5.9	11.0	332	1.7%	-1.3%	5.4%	2.7%	GAZPRU 7.288 37	<div></div>	5.4% GAZPRU 8.146 18
GPBRU 7.496 23	RU	NR / NA / B+	105.6	6.8	1.7	285	0.3%	1.0%	5.3%	1.5%	GPBRU 7.496 23	<div></div>	5.3% GMKNRM 4.375 18
FIDBAN 6.875 18	NG	NA / B- / B-	88.3	17.6	1.1	1633	0.1%	3.0%	5.2%	3.7%	FIDBAN 6.875 18	<div></div>	5.2% QATAR 2.099 18
EVRAZ 6.5 20	RU	NA / B+ / BB-	106.5	4.3	2.8	261	0.0%	1.0%	5.0%	1.6%	EVRAZ 6.5 20	<div></div>	5.0% EVRAZ 6.5 20
VEBBNK 6.8 25	RU	NA / BB+ / BBB-	110.5	5.3	6.6	305	0.5%	2.3%	4.9%	3.9%	VEBBNK 6.8 25	<div></div>	4.9% MAFUAE 7.125 PERP
Performance (Total Return)													
Bottom 20	Country	Rating	PX	Y (%)	Dur	Z	7d	28d	91d	YTD	91 day total return		91 day Z-spread change
OCPMR 4.5 25	MA	NA / BBB- / BBB-	97.0	4.9	7.0	267	0.9%	0.0%	-2.8%	1.7%	OCPMR 4.5 25	<div></div>	-2.8% TAQAUH 6.5 36
TURKEY 6 41	TR	Ba1 / NR / BB+	96.9	6.3	12.4	369	2.9%	2.3%	-2.8%	5.7%	TURKEY 6 41	<div></div>	-2.8% MOZAM 10.5 23
OMGRID 3.958 25	OM	Baa1 / BBB- / NA	92.3	5.1	6.8	288	-2.9%	-0.3%	-2.9%	0.1%	OMGRID 3.958 25	<div></div>	-2.9% PGILLN 5.25 23
ETISLT 3.5 24	AE	Aa3 / AA- / A+u	101.6	3.3	6.4	108	0.4%	0.5%	-2.9%	1.3%	ETISLT 3.5 24	<div></div>	-2.9% IVYCST 5.375 24
TURKEY 6.875 36	TR	Ba1 / NR / BB+	106.8	6.3	10.6	373	2.7%	2.2%	-2.9%	4.8%	TURKEY 6.875 36	<div></div>	-2.9% NBOBOM 3.125 19
OMAN 4.75 26	OM	Baa1 / BBB- / NA	97.0	5.2	7.4	286	1.0%	-0.2%	-3.0%	0.5%	OMAN 4.75 26	<div></div>	-3.0% INVCOR 5 27
TURKEY 8 34	TR	Ba1 / NR / BB+	118.1	6.3	9.6	377	2.3%	2.2%	-3.2%	4.3%	TURKEY 8 34	<div></div>	-3.2% FGBUH 2.625 20
OCPMR 6.875 44	MA	NA / BBB- / BBB-	104.7	6.5	12.3	394	1.3%	0.7%	-3.4%	4.1%	OCPMR 6.875 44	<div></div>	-3.4% IVYCST 5.75 32
TURKEY 7.25 38	TR	Ba1 / NR / BB+	110.9	6.3	10.9	377	2.5%	2.4%	-3.5%	5.0%	TURKEY 7.25 38	<div></div>	-3.5% DOLNRG 5.5 21
TURKEY 6.75 40	TR	Ba1 / NR / BB+	105.3	6.3	11.8	376	2.8%	2.1%	-3.5%	5.2%	TURKEY 6.75 40	<div></div>	-3.5% GULINT 3.5 22
TURKEY 6.625 45	TR	Ba1 / NA / BB+	104.3	6.3	12.6	372	2.9%	2.6%	-3.5%	6.1%	TURKEY 6.625 45	<div></div>	-3.5% FGBUH 3.25 19
ADGB 3.125 26	AE	NA / AA / AA	99.4	3.2	7.9	89	0.6%	0.5%	-3.5%	1.1%	ADGB 3.125 26	<div></div>	-3.5% ALDAR 4.348 18
INTPET 6.875 41	AE	Aa2 / AA / AA	136.7	4.4	13.5	183	1.2%	-0.3%	-3.5%	1.4%	INTPET 6.875 41	<div></div>	-3.5% INTPET 5.5 22
QATAR 6.4 40	QA	Aa2 / AA / NA	128.2	4.4	13.3	185	0.7%	1.0%	-3.7%	3.0%	QATAR 6.4 40	<div></div>	-3.7% KWIPKK 9.375 20
QTELQD 3.875 28	QA	A2 / A- / A+	97.9	4.1	8.8	173	0.4%	0.2%	-3.8%	1.4%	QTELQD 3.875 28	<div></div>	-3.8% KKB 8.5 18
QATAR 5.75 42	QA	Aa2 / AA / NA	119.3	4.5	14.2	186	0.8%	0.5%	-4.5%	2.6%	QATAR 5.75 42	<div></div>	-4.5% ACCESS 9.25 21
MOROC 5.5 42	MA	NA / BBB- / BBB-	105.5	5.1	13.9	252	-0.1%	2.0%	-5.0%	3.6%	MOROC 5.5 42	<div></div>	-5.0% ALBRK 7.75 23
RPCUH 6 36	AE	A3 / A- / NA	113.5	4.9	10.9	230	0.2%	-0.6%	-5.1%	-0.2%	RPCUH 6 36	<div></div>	-5.1% SLOREP 1.25 27
TAQAUH 6.5 36	AE	A3 / A- / NA	122.2	4.8	11.8	220	0.5%	-1.2%	-6.4%	-0.2%	TAQAUH 6.5 36	<div></div>	-6.4% KWIPKK 4.8 19
SLOREP 3.125 45	SI	Baa3 / A / A-	113.5	2.5	19.2	109	0.1%	-9.2%	-10.4%	-8.6%	SLOREP 3.125 45	<div></div>	-10.4% BELRUS 8.95 18

Source: Bloomberg

Performance – CEEMEA Sovereign (3 month change)

Performance (Total Return)													
Top 20	Country	Rating	PX	Y (%)	Dur	Z	7d	28d	91d	YTD	91 day total return	91 day Z-spread change	
IRAQ 5.8 28	IQ	NA / NA / NA	84.7	7.9	5.4	715	1.6%	-1.2%	7.8%	2.3%	IRAQ 5.8 28	7.8%	ADGB 6.75 19
GABON 6.95 25	GA	B1 / NR / B+	95.4	7.7	6.1	550	2.4%	1.0%	6.2%	0.3%	GABON 6.95 25	6.2%	ANGOL 7 19
GABON 6.375 24	GA	NA / NR / B+	94.6	7.3	5.3	537	2.4%	1.0%	6.0%	0.7%	GABON 6.375 24	6.0%	RUSSIA 3.5 19
ANGOL 7 19	AO	B1 / B / NA	102.7	5.8	1.2	272	0.4%	1.3%	4.8%	1.6%	ANGOL 7 19	4.8%	RAKS 3.297 18
MOZAM 10.5 23	MZ	Caa3u / NA / NA	61.1	23.0	3.7	2106	0.7%	3.4%	4.8%	2.5%	MOZAM 10.5 23	4.8%	ADGB 2.125 21
EGYPT 8.5 47	EG	B3 / NA / B	106.3	7.9	11.2	541	4.2%	0.1%	4.2%	4.2%	EGYPT 8.5 47	4.2%	DUGB 3.875 23
GHANA 8.125 26	GH	B3 / B- / B	97.9	8.5	5.7	635	0.1%	-1.3%	4.0%	-0.4%	GHANA 8.125 26	4.0%	QATAR 2.099 18
NGERIA 6.75 21	NG	NA / B / B+	102.4	6.1	3.4	426	0.4%	-0.4%	3.9%	1.4%	NGERIA 6.75 21	3.9%	DUGB 6.45 22
GHANA 7.875 23	GH	B3 / B- / B	98.1	8.3	5.0	620	0.1%	-1.3%	3.9%	-0.5%	GHANA 7.875 23	3.9%	DUGB 5.591 21
EGYPT 7.5 27	EG	B3 / NA / B	103.7	7.0	7.0	468	3.6%	0.1%	3.6%	3.6%	EGYPT 7.5 27	3.6%	QATAR 5.25 20
GHANA 9.25 22	GH	B3 / B- / B	105.9	7.9	3.6	576	-0.1%	-0.9%	3.6%	-1.0%	GHANA 9.25 22	3.6%	DUGB 7.75 20
TURKEY 6 27	TR	Ba1 / NA / BB+	103.6	5.5	7.6	321	2.4%	1.0%	3.3%	3.3%	TURKEY 6 27	3.3%	RAKS 3.094 25
NGERIA 6.375 23	NG	NA / B / B+	98.4	6.7	5.2	462	0.4%	-0.3%	3.2%	1.3%	NGERIA 6.375 23	3.2%	SHARKS 3.839 21
RWANDA 6.625 23	RW	NA / B / B+	101.2	6.4	5.0	432	2.0%	0.1%	2.6%	2.2%	RWANDA 6.625 23	2.6%	RUSSIA 4.5 22
BHRAIN 6 44	BH	NA / BB- / BB+	85.4	7.2	12.0	466	1.5%	2.6%	2.6%	4.4%	BHRAIN 6 44	2.6%	RUSSIA 4.875 23
TNZNIA 0 3/9/20	TZ	NA / NA / NA	105.6	5.4	0.1	#N/A N/A	0.2%	0.6%	2.5%	0.8%	TNZNIA 0 3/9/20	2.5%	SHARKS 3.764 24
REPCAM 9.5 25	CM	NA / B / B	110.0	7.9	5.5	558	1.6%	1.7%	2.4%	2.3%	REPCAM 9.5 25	2.4%	DUGB 5 29
UKRAIN 7.75 19	UA	Caa3 / B- / B-	99.9	7.8	2.2	622	0.3%	-1.6%	2.1%	-0.8%	UKRAIN 7.75 19	2.1%	NGERIA 5.125 18
BHRAIN 7 28	BH	NA / BB- / BB+	103.3	6.6	7.8	422	0.6%	-0.1%	2.0%	1.0%	BHRAIN 7 28	2.0%	QATAR 2.375 21
EGYPT 6.125 22	EG	B3 / NA / B	102.9	5.5	4.3	352	2.0%	0.1%	2.0%	2.0%	EGYPT 6.125 22	2.0%	KENINT 5.875 19
Performance (Total Return)													
Bottom 20	Country	Rating	PX	Y (%)	Dur	Z	7d	28d	91d	YTD	91 day total return	91 day Z-spread change	
SOAF 6.25 41	ZA	Baa2 / BBB- / BBB-	113.9	5.2	12.8	265	1.8%	0.0%	-2.2%	3.8%	SOAF 6.25 41	-2.2%	SENEGL 6.25 24
IVYCST 6.375 28	CI	Ba3 / NA / B+	99.1	6.5	7.1	421	1.5%	-0.8%	-2.3%	1.6%	IVYCST 6.375 28	-2.3%	KENINT 6.875 24
MOROC 4.25 22	MA	NA / BBB- / BBB-	103.3	3.6	5.1	159	-2.3%	0.2%	-2.3%	1.0%	MOROC 4.25 22	-2.3%	TURKEY 6.75 40
QATAR 3.241 23	QA	Aa2 / AA / NA	102.1	2.9	5.4	80	0.2%	0.0%	-2.5%	0.0%	QATAR 3.241 23	-2.5%	REPAM 5.25 25
IVYCST 5.375 24	CI	Ba3 / NA / B+	96.2	6.0	6.0	385	1.2%	-1.4%	-2.5%	-0.3%	IVYCST 5.375 24	-2.5%	JORDAN 6.125 26
QATAR 9.75 30	QA	Aa2 / AA / NA	157.5	4.1	8.7	170	0.1%	1.2%	-2.6%	2.2%	QATAR 9.75 30	-2.6%	UKRAIN 7.75 23
QATAR 3.25 26	QA	Aa2 / AA / AA	98.2	3.5	7.9	117	0.4%	1.0%	-2.6%	1.7%	QATAR 3.25 26	-2.6%	ISRAEL 1.5 27
TURKEY 11.875 30	TR	Ba1 / NR / BB+	153.5	5.9	7.8	353	2.0%	1.7%	-2.7%	3.5%	TURKEY 11.875 30	-2.7%	TURKEY 7.25 38
TURKEY 6 41	TR	Ba1 / NR / BB+	96.9	6.3	12.4	369	2.9%	2.3%	-2.8%	5.7%	TURKEY 6 41	-2.8%	TURKEY 8 34
TURKEY 6.875 36	TR	Ba1 / NR / BB+	106.8	6.3	10.6	373	2.7%	2.2%	-2.9%	4.8%	TURKEY 6.875 36	-2.9%	TURKEY 11.875 30
OMAN 4.75 26	OM	Baa1 / BBB- / NA	97.0	5.2	7.4	286	1.0%	-0.2%	-3.0%	0.5%	OMAN 4.75 26	-3.0%	OMAN 4.75 26
TURKEY 8 34	TR	Ba1 / NR / BB+	118.1	6.3	9.6	377	2.3%	2.2%	-3.2%	4.3%	TURKEY 8 34	-3.2%	IVYCST 6.375 28
TURKEY 7.25 38	TR	Ba1 / NR / BB+	110.9	6.3	10.9	377	2.5%	2.4%	-3.5%	5.0%	TURKEY 7.25 38	-3.5%	AID 2.149 22
TURKEY 6.75 40	TR	Ba1 / NR / BB+	105.3	6.3	11.8	376	2.8%	2.1%	-3.5%	5.2%	TURKEY 6.75 40	-3.5%	ISRAEL 2.375 37
TURKEY 6.625 45	TR	Ba1 / NA / BB+	104.3	6.3	12.6	372	2.9%	2.6%	-3.5%	6.1%	TURKEY 6.625 45	-3.5%	MOROC 4.25 22
ADGB 3.125 26	AE	NA / AA / AA	99.4	3.2	7.9	89	0.6%	0.5%	-3.5%	1.1%	ADGB 3.125 26	-3.5%	MOZAM 10.5 23
QATAR 6.4 40	QA	Aa2 / AA / NA	128.2	4.4	13.3	185	0.7%	1.0%	-3.7%	3.0%	QATAR 6.4 40	-3.7%	IVYCST 5.375 24
QATAR 5.75 42	QA	Aa2 / AA / NA	119.3	4.5	14.2	186	0.8%	0.5%	-4.5%	2.6%	QATAR 5.75 42	-4.5%	IVYCST 5.75 32
MOROC 5.5 42	MA	NA / BBB- / BBB-	105.5	5.1	13.9	252	-0.1%	2.0%	-5.0%	3.6%	MOROC 5.5 42	-5.0%	SLOREP 1.25 27
SLOREP 3.125 45	SI	Baa3 / A / A-	113.5	2.5	19.2	109	0.1%	-9.2%	-10.4%	-8.6%	SLOREP 3.125 45	-10.4%	BELRUS 8.95 18

Source: Bloomberg

Performance – CEEMEA Banks (3 month change)

Top 20	Country	Rating	Latest			Performance (Total Return)					91 day total return	<div></div>		91 day Z-spread change	<div></div>	
			PX	Y(%)	Dur	Z	7d	28d	91d	YTD						
KKB 5.5 22	KZ	NA/B-/CCC	87.1	8.3	4.8	629	0.1%	18.2%	21.2%	15.5%	KKB 5.5 22	<div></div>	21.2%	EBIUH 4.875 23	<div></div>	-73.5%
DIAMBK 8.75 19	NG	NA/B-/B-	82.4	18.5	1.9	1698	1.3%	8.5%	11.9%	9.9%	DIAMBK 8.75 19	<div></div>	11.9%	GPBRU 4.96 19	<div></div>	-48.9%
ALFARU 8 PERP	RU	NA/NA/B	106.9	7.7	4.1	446	0.7%	1.9%	8.5%	3.5%	ALFARU 8 PERP	<div></div>	8.5%	GPBRU 7.875 PERP	<div></div>	-48.7%
GPBRU 7.875 PERP	RU	NR/NA/NA	103.7	8.6	1.1	335	0.2%	1.1%	5.7%	1.5%	GPBRU 7.875 PERP	<div></div>	5.7%	GPBRU 7.496 23	<div></div>	-46.6%
GPBRU 7.496 23	RU	NR/NA/B+	105.6	6.8	1.7	285	0.3%	1.0%	5.3%	1.5%	GPBRU 7.496 23	<div></div>	5.3%	SBERRU 5.5 24	<div></div>	-43.3%
FIDBAN 6.875 18	NG	NA/B-/B-	88.3	17.6	1.1	1633	0.1%	3.0%	5.2%	3.7%	FIDBAN 6.875 18	<div></div>	5.2%	SBERRU 4.15 19	<div></div>	-42.3%
VEBBNK 6.8 25	RU	NA/BB+/BBB-	110.5	5.3	6.6	305	0.5%	2.3%	4.9%	3.9%	VEBBNK 6.8 25	<div></div>	4.9%	KKB 5.5 22	<div></div>	-39.7%
SBERRU 5.25 23	RU	NA/NA/BB+	101.5	5.0	5.3	290	-0.1%	1.2%	4.8%	1.8%	SBERRU 5.25 23	<div></div>	4.8%	ADCBUH 3.125 23	<div></div>	-39.3%
SBERRU 5.5 24	RU	NA/NA/BB+	102.5	5.4	1.9	272	0.0%	0.5%	4.8%	1.3%	SBERRU 5.5 24	<div></div>	4.8%	GPBRU 7.25 19	<div></div>	-37.7%
RSHB 8.5 23	RU	NR/NA/NA	111.1	6.4	5.0	434	1.0%	1.7%	4.5%	3.7%	RSHB 8.5 23	<div></div>	4.5%	AKBHC 14 18	<div></div>	-37.7%
OSCHAD 9.375 23	UA	Caa3/NA/B-	98.9	9.6	2.4	835	0.8%	-0.4%	4.3%	1.5%	OSCHAD 9.375 23	<div></div>	4.3%	GRTBNL 6 18	<div></div>	-34.3%
EXIMUK 9.625 22	UA	Caa3/NA/B-	99.9	9.7	2.5	808	1.1%	-0.5%	4.2%	1.9%	EXIMUK 9.625 22	<div></div>	4.2%	VEBBNK 6.902 20	<div></div>	-33.2%
GRTBNL 6 18	NG	NA/B/B+	102.1	4.7	1.6	329	0.6%	1.5%	3.8%	2.4%	GRTBNL 6 18	<div></div>	3.8%	ALFARU 8 PERP	<div></div>	-32.4%
EXIMUK 9.75 25	UA	Caa3/NA/B-	97.1	10.3	3.8	872	1.1%	-0.8%	3.8%	2.7%	EXIMUK 9.75 25	<div></div>	3.8%	ADIBUH 6.375 PERP	<div></div>	-32.1%
AKBHC 14 18	RU	B3/NA/B+	112.1	4.5	1.2	322	0.5%	0.8%	3.6%	1.3%	AKBHC 14 18	<div></div>	3.6%	ALFARU 7.5 19	<div></div>	-31.6%
OSCHAD 9.625 25	UA	Caa3/NA/B-	97.1	10.2	3.3	884	0.9%	-0.5%	3.5%	2.7%	OSCHAD 9.625 25	<div></div>	3.5%	CRBKMO 7.7 18	<div></div>	-31.6%
NMOSRM 10 19	RU	B2/NA/WD	108.5	5.8	1.9	434	0.0%	3.1%	3.4%	3.0%	NMOSRM 10 19	<div></div>	3.4%	SBERRU 5.18 19	<div></div>	-31.5%
VEBBNK 6.025 22	RU	NA/BB+/BBB-	106.7	4.6	4.6	264	0.1%	1.6%	3.4%	2.2%	VEBBNK 6.025 22	<div></div>	3.4%	SBERRU 5.25 23	<div></div>	-30.5%
GPBRU 4.96 19	RU	NA/BB+/BB+	104.7	3.1	2.4	147	0.3%	1.2%	3.3%	1.8%	GPBRU 4.96 19	<div></div>	3.3%	SBERRU 6.125 22	<div></div>	-29.9%
CRBKMO 8.7 18	RU	NR/NA/BB-	104.5	6.0	1.6	456	0.4%	1.8%	3.3%	2.3%	CRBKMO 8.7 18	<div></div>	3.3%	EIBUH 4.147 18	<div></div>	-29.9%

Performance (Total Return)															
Bottom 20	Country	Rating	PX	Y (%)	Dur	Z	7d	28d	91d	YTD	91 day total return		91 day Z-spread change		
NBADUH 3 19	AE	Aa3 / AA-/*- / AA-	101.5	2.4	2.4	81	0.2%	0.2%	-0.1%	0.6%	NBADUH 3 19		-0.1%	BNKPOZ 5 18	■ -7.5%
EIBUH 3.542 21	AE	NA / NA / A+	101.0	3.3	3.9	141	0.3%	0.1%	-0.1%	0.6%	EIBUH 3.542 21		-0.1%	ISCTR 5.375 21	■ -7.5%
EXCRTU 5.375 23	TR	Ba1 / NA / BB+	96.5	6.0	5.4	391	-0.1%	2.2%	-0.1%	4.2%	EXCRTU 5.375 23		-0.1%	TSKBTI 4.875 21	■ -6.6%
INTBOQ 3.5 20	QA	A2 / NA / A+	102.1	2.9	3.5	111	0.4%	0.5%	-0.2%	1.0%	INTBOQ 3.5 20		-0.2%	OSCHAD 9.625 25	■ -6.0%
COMQAT 7.5 19	QA	Baa2 / BBB / NA	112.3	2.9	2.5	123	0.2%	0.2%	-0.2%	0.4%	COMQAT 7.5 19		-0.2%	VAKBN 6 22	■ -5.8%
ADCBUH 2.625 20	AE	NA / A / A+	99.9	2.7	2.9	96	0.2%	0.5%	-0.2%	0.8%	ADCBUH 2.625 20		-0.2%	TCZIRA 4.75 21	■ -5.6%
FGBUH 3.25 19	AE	A2 / NA / A+/*+	101.7	2.3	1.9	87	0.1%	0.2%	-0.3%	0.4%	FGBUH 3.25 19		-0.3%	FIDBAN 6.875 18	■ -5.3%
NBADUH 2.25 20	AE	Aa3 / AA-/*- / AA-	99.4	2.5	2.9	78	0.2%	0.1%	-0.3%	0.6%	NBADUH 2.25 20		-0.3%	ADCBUH 2.5 18	■ -4.9%
AFRFIN 4.375 20	SNAT	A3 / NA / NA	103.1	3.3	3.0	163	0.4%	0.0%	-0.3%	0.8%	AFRFIN 4.375 20		-0.3%	AKBNK 5.125 25	■ -4.8%
COMQAT 2.875 19	QA	A2 / BBB+ / NA	100.8	2.5	2.3	97	0.1%	0.4%	-0.3%	0.5%	COMQAT 2.875 19		-0.3%	COMQAT 2.875 19	■ -3.6%
COMQAT 3.25 21	QA	A2 / BBB+ / NA	99.9	3.3	4.0	139	0.5%	0.1%	-0.4%	0.8%	COMQAT 3.25 21		-0.4%	TUFIKA 5.375 19	■ -3.2%
EBIUH 3 20	AE	A3 / NA / A+	100.7	2.8	3.1	105	0.2%	0.2%	-0.4%	0.4%	EBIUH 3 20		-0.4%	BKDBOM 6.85 PERP	■ -1.8%
QIBKQD 2.754 20	QA	NA / NA / A+	99.6	2.9	3.5	107	0.0%	0.0%	-0.5%	0.1%	QIBKQD 2.754 20		-0.5%	UNICZ 0.75 22	■ -0.6%
QNBK 2.875 20	QA	Aa3 / NA / AA-	100.9	2.6	3.0	87	0.4%	0.2%	-0.5%	0.7%	QNBK 2.875 20		-0.5%	NBOBOM 3.125 19	■ 0.6%
NBOBOM 3.125 19	OM	Baa2 / NA / NA	99.7	3.3	2.5	165	0.0%	0.2%	-0.5%	0.2%	NBOBOM 3.125 19		-0.5%	FGBUH 2.625 20	■ 1.9%
ABQKQD 3.625 21	QA	A2 / NA / NA	101.5	3.2	3.8	140	0.3%	-0.1%	-0.8%	0.3%	ABQKQD 3.625 21		-0.8%	GULINT 3.5 22	■ 2.6%
QNBK 2.125 21	QA	Aa3 / A+ / AA-	96.3	3.0	4.3	108	0.8%	0.1%	-0.9%	1.3%	QNBK 2.125 21		-0.9%	FGBUH 3.25 19	■ 3.6%
FGBUH 2.625 20	AE	A2 / NA / A+/*+	99.9	2.6	2.9	96	0.1%	0.2%	-1.0%	0.4%	FGBUH 2.625 20		-1.0%	KKB 8.5 18	■ 9.2%
UNBUH 2.75 21	AE	A1 / NA / A+	97.7	3.3	4.3	137	0.4%	-0.3%	-1.3%	0.1%	UNBUH 2.75 21		-1.3%	ACCESS 9.25 21	■ 9.5%
AKBNK 5.125 25	TR	Ba1 / NA / BB+	93.2	6.2	6.4	398	2.0%	1.6%	-1.4%	3.2%	AKBNK 5.125 25		-1.4%	ALBRK 7.75 23	■ 13.0%

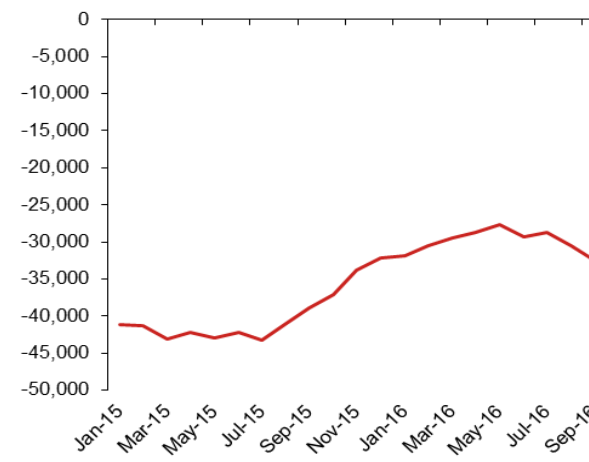
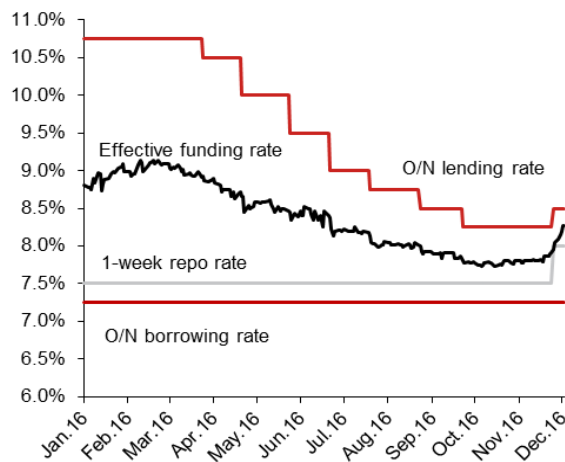
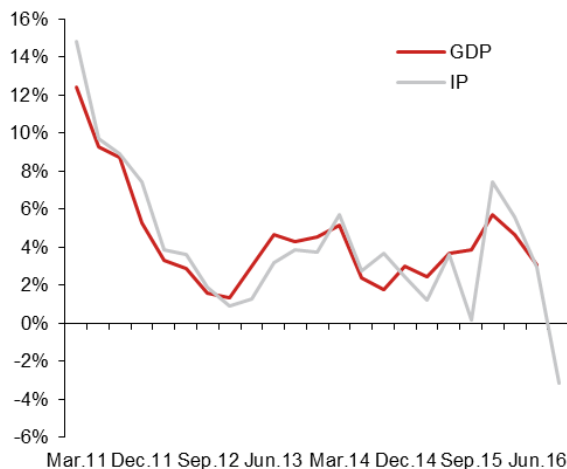
Source: Bloomberg

Performance – CEEMEA Corporates (3 month change)

Performance (Total Return)													
Top 20	Country	Rating	PX	Y (%)	Dur	Z	7d	28d	91d	YTD	91 day total return		91 day Z-spread change
EVRAZ 6.75 22	RU	NA / B+ / BB-	107.6	5.0	4.2	307	0.3%	1.9%	6.0%	3.0%	EVRAZ 6.75 22	<div></div>	6.0% GAZPRU 3.85 20 <div></div> -47.0%
FXPOLN 10.375 19s	UA	Caa3 / CCC / CCC	104.0	8.3	1.5	596	-0.5%	3.5%	5.7%	3.7%	FXPOLN 10.375 19s	<div></div>	5.7% TNEFT 8.7 18 <div></div> -43.4%
KOS 7.875 21	US	NA / CCC+ / B	100.1	7.9	2.2	628	0.1%	0.4%	5.7%	3.0%	KOS 7.875 21	<div></div>	5.7% CHMFRTU 4.45 18 <div></div> -41.9%
TLWLN 6.25 22	GB	Caa1 / B- / NA	92.5	8.0	4.2	609	0.0%	0.9%	5.6%	0.0%	TLWLN 6.25 22	<div></div>	5.6% GAZPRU 8.146 18 <div></div> -40.8%
FXPOLN 10.375 19	UA	Caa3 / CCC / CCC	104.1	8.3	1.5	593	-0.7%	4.9%	5.6%	3.9%	FXPOLN 10.375 19	<div></div>	5.6% GMKNRM 4.375 18 <div></div> -40.8%
TPZMAR 8.625 18	AE	B3 / B- / NA	100.7	8.2	1.5	676	1.2%	2.4%	5.5%	3.9%	TPZMAR 8.625 18	<div></div>	5.5% EVRAZ 6.5 20 <div></div> -40.1%
TLWLN 6 20	GB	Caa1 / B- / NA	94.6	7.7	3.2	591	-0.6%	0.3%	5.5%	-0.2%	TLWLN 6 20	<div></div>	5.5% MAFUAE 7.125 PERP <div></div> -40.1%
EVRAZ 8.25 21	RU	NA / B+ / BB-	112.6	4.7	3.4	293	0.1%	1.6%	5.4%	2.5%	EVRAZ 8.25 21	<div></div>	5.4% TAQAUH 6.25 19 <div></div> -39.9%
GAZPRU 7.288 37	RU	Ba1 / BB+ / BBB-	116.9	5.9	11.0	332	1.7%	-1.3%	5.4%	2.7%	GAZPRU 7.288 37	<div></div>	5.4% EVRAZ 9.5 18 <div></div> -39.7%
EVRAZ 6.5 20	RU	NA / B+ / BB-	106.5	4.3	2.8	261	0.0%	1.0%	5.0%	1.6%	EVRAZ 6.5 20	<div></div>	5.0% GAZPRU 9.25 19 <div></div> -38.1%
KAZNMH 4.625 23	KZ	NA / BB+ / BBB-	96.6	5.3	5.3	318	1.4%	0.6%	4.9%	3.2%	KAZNMH 4.625 23	<div></div>	4.9% NLMKRU 4.45 18 <div></div> -37.7%
HCDNDA 5.875 21	RU	NA / BB+ / BB+	103.6	5.0	4.1	311	0.4%	0.4%	4.8%	1.3%	HCDNDA 5.875 21	<div></div>	4.8% EVRAZ 8.25 21 <div></div> -36.7%
BORFIN 7.625 18	RU	B1 / B+ / NA	101.9	6.4	1.5	500	0.8%	1.0%	4.7%	2.2%	BORFIN 7.625 18	<div></div>	4.7% EVRAZ 6.75 18 <div></div> -36.5%
GLPRLI 6.5 23	RU	Ba3 / NA / BB	102.5	6.0	5.2	394	1.0%	1.3%	4.5%	2.8%	GLPRLI 6.5 23	<div></div>	4.5% SECO 3.473 23 <div></div> -35.7%
DAMACR 4.97 19	AE	NA / BB / NA	99.5	5.2	2.0	369	0.0%	1.4%	4.2%	1.7%	DAMACR 4.97 19	<div></div>	4.2% SIBUR 3.914 18 <div></div> -34.9%
GAZPRU 8.625 34	RU	Ba1 / BB+ / BBB-	130.5	5.8	9.8	332	1.3%	-1.4%	4.0%	1.2%	GAZPRU 8.625 34	<div></div>	4.0% EVRAZ 6.75 22 <div></div> -34.8%
OPRORU 8.25 21	RU	B1 / B+ / NA	98.9	8.5	3.7	666	0.4%	1.2%	3.5%	1.9%	OPRORU 8.25 21	<div></div>	3.5% SECO 4 24 <div></div> -34.2%
GLPRLI 6.872 22	RU	Ba3 / NA / BB	105.3	5.6	4.2	370	0.7%	1.2%	3.4%	2.3%	GLPRLI 6.872 22	<div></div>	3.4% GAZPRU 5.999 21 <div></div> -33.6%
MHPSA 8.25 20	UA	NA / B- / B-	99.6	8.4	2.6	671	1.1%	1.8%	3.2%	3.7%	MHPSA 8.25 20	<div></div>	3.2% TMENRU 7.875 18 <div></div> -33.5%
SIBNEF 6 23	RU	Ba1 / BB+ / BBB-	107.4	4.7	5.5	260	0.2%	0.6%	3.2%	1.4%	SIBNEF 6 23	<div></div>	3.2% TAQAUH 2.5 18 <div></div> -33.5%
Performance (Total Return)													
Bottom 20	Country	Rating	PX	Y (%)	Dur	Z	7d	28d	91d	YTD	91 day total return		91 day Z-spread change
TAQAUH 4.375 26	AE	A3 / A- / NA	102.3	4.1	7.6	177	0.5%	0.0%	-1.3%	1.6%	TAQAUH 4.375 26	<div></div>	-1.3% DEWAAE 3 18 <div></div> -4.9%
MUBAUH 3.25 22	AE	Aa2 / AA / AA	101.5	2.9	4.7	97	0.4%	0.0%	-1.4%	1.1%	MUBAUH 3.25 22	<div></div>	-1.4% QTELQD 7.875 19 <div></div> -4.3%
MUBAUH 2.75 23	AE	Aa2 / AA / AA	97.9	3.1	5.7	104	-1.5%	0.0%	-1.5%	1.3%	MUBAUH 2.75 23	<div></div>	-1.5% TURKTI 4.875 24 <div></div> -4.3%
MUBAUH 5.5 21	AE	Aa2 / AA / AA	111.1	2.7	3.7	85	0.3%	0.3%	-1.6%	0.8%	MUBAUH 5.5 21	<div></div>	-1.6% RPCUH 6 36 <div></div> -4.2%
QTELQD 4.5 43	QA	A2 / A- / A+	101.8	4.4	15.3	177	0.3%	2.0%	-1.6%	3.1%	QTELQD 4.5 43	<div></div>	-1.6% GLYHO 8.125 21 <div></div> -3.5%
TURKTI 4.875 24	TR	NA / BBB- / BBB-	95.0	5.7	6.0	355	1.9%	-0.1%	-1.6%	1.8%	TURKTI 4.875 24	<div></div>	-1.6% OCPMR 4.5 25 <div></div> -3.4%
EMAAR 3.635 26	AE	Baa3 / BBB- / NA	96.3	4.1	7.9	179	0.4%	-0.7%	-1.6%	0.1%	EMAAR 3.635 26	<div></div>	-1.6% OMGRID 3.958 25 <div></div> -2.0%
QTELQD 3.25 23	QA	A2 / A- / A+	99.2	3.4	5.4	133	0.4%	0.4%	-1.9%	1.4%	QTELQD 3.25 23	<div></div>	-1.9% KERPW 8.75 22 <div></div> -1.8%
DOLNRG 5.5 21	AE	A1 / NA / A+	110.8	3.1	4.3	116	0.3%	0.2%	-2.0%	0.8%	DOLNRG 5.5 21	<div></div>	-2.0% EMIRAT 3.875 23 <div></div> -1.4%
QTELQD 3.75 26	QA	A2 / A- / A+	99.4	3.8	7.8	152	0.3%	0.3%	-2.1%	1.3%	QTELQD 3.75 26	<div></div>	-2.1% MUBAUH 5.5 21 <div></div> -1.1%
QTELQD 5 25	QA	A2 / A- / A+	108.8	3.8	7.0	154	0.2%	0.7%	-2.3%	1.9%	QTELQD 5 25	<div></div>	-2.3% HELTOW 8.375 19 <div></div> -0.7%
INTPET 5.5 22	AE	Aa2 / AA / AA	111.1	3.1	4.4	116	0.5%	-0.1%	-2.3%	0.9%	INTPET 5.5 22	<div></div>	-2.3% RUALRU 5.125 22 <div></div> -0.6%
OCPMR 4.5 25	MA	NA / BBB- / BBB-	97.0	4.9	7.0	267	0.9%	0.0%	-2.8%	1.7%	OCPMR 4.5 25	<div></div>	-2.8% TAQAUH 6.5 36 <div></div> -0.5%
OMGRID 3.958 25	OM	Baa1 / BBB- / NA	92.3	5.1	6.8	288	0.6%	-0.3%	-2.9%	0.1%	OMGRID 3.958 25	<div></div>	-2.9% PGILLN 5.25 23 <div></div> 0.0%
ETISLT 3.5 24	AE	Aa3 / AA- / A+u	101.6	3.3	6.4	108	0.4%	0.5%	-2.9%	1.3%	ETISLT 3.5 24	<div></div>	-2.9% INVCOR 5 27 <div></div> 0.7%
OCPMR 6.875 44	MA	NA / BBB- / BBB-	104.7	6.5	12.3	394	1.3%	0.7%	-3.4%	4.1%	OCPMR 6.875 44	<div></div>	-3.4% DOLNRG 5.5 21 <div></div> 2.2%
INTPET 6.875 41	AE	Aa2 / AA / AA	136.7	4.4	13.5	183	1.2%	-0.3%	-3.5%	1.4%	INTPET 6.875 41	<div></div>	-3.5% ALDAR 4.348 18 <div></div> 5.0%
QTELQD 3.875 28	QA	A2 / A- / A+	97.9	4.1	8.8	173	0.4%	0.2%	-3.8%	1.4%	QTELQD 3.875 28	<div></div>	-3.8% INTPET 5.5 22 <div></div> 6.0%
RPCUH 6 36	AE	A3 / A- / NA	113.5	4.9	10.9	230	0.2%	-0.6%	-5.1%	-0.2%	RPCUH 6 36	<div></div>	-5.1% KWIPKK 9.375 20 <div></div> 6.1%
TAQAUH 6.5 36	AE	A3 / A- / NA	122.2	4.8	11.8	220	0.5%	-1.2%	-6.4%	-0.2%	TAQAUH 6.5 36	<div></div>	-6.4% KWIPKK 4.8 19 <div></div> 19.4%

Source: Bloomberg

Politics heats up as we approach the Executive Presidency endgame, protracted TRY weakness



Sovereign Risk Drivers:

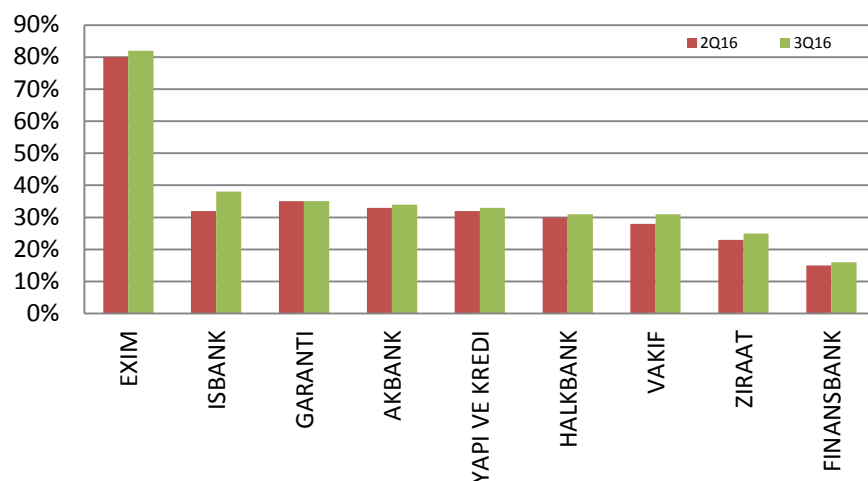
- The Referendum (on constitutional changes and an executive presidency) expected in April 2017
- Monetary Policy: Significant undue political influence over monetary policy; CBT reacting to market pressures rather than working towards a long term inflation target; a one-off, 250bps+ rate hike is the minimum necessary to tackle the real rate & TRY
- Turkey Growth: 3Q16 GDP figure showed sharper than expected contraction of GDP in 3Q (-1.8% YoY); The market expected +0.3%YoY; the growth model of Turkey is perceived to be broken with only 2-3% growth in the short-term
- Geopolitics: Security risk is a real threat even though the market generally remains complacent about the one-off low probability/high impact risks
- Fiscal position is one of the key strengths
- Capital controls are still very unlikely given Turkey's reliance on foreign business and refinancing; nevertheless 'soft' controls such as bank reporting for FX transactions over a certain amount (\$500k) already exist

Among worst affected asset classes post-US election

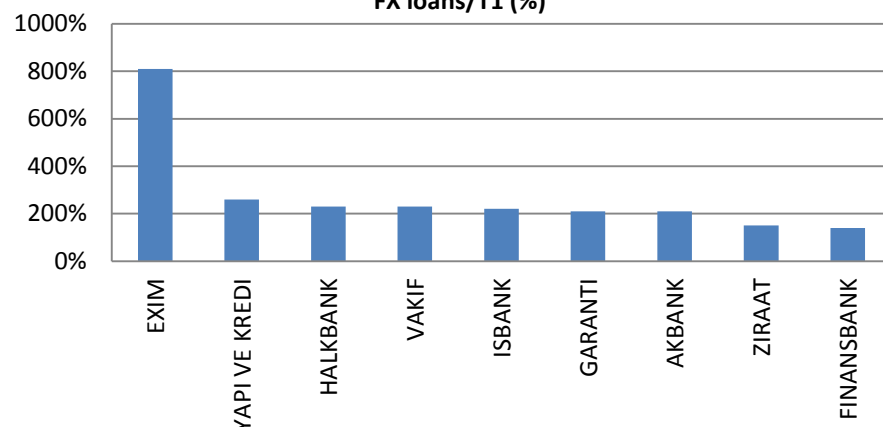
- + Solid results in 3Q16, with stronger margins (driven by cheaper deposits) and good cost control with good cost control
 - + Reported ahead-of consensus net incomes generally with the exception of Halk (one off general provisioning charge and strong 2Q, which was not repeated in 3Q)
 - + Loss absorbing cushions remain decent with T1 capital anywhere between 10.5% and 13%
 - + FX loan demand will likely to be low now given the exchange rate
 - + FX loans are longer dated, i.e. unlikely for the TRY weakness to lead to immediate pressure on repayments)
 - + Banks don't have to raise specific provisions for weakening FX loans until they are past due by at least 90 days
 - + A fairly small portion of FX loans are to SMEs (~13% of total FX loans) and the remainder to large corporates, which are likely to have better FX buffers
 - + Households in Turkey have a long FX position with next to no FX loans and sizeable FX deposits
 - + Banks for now should be able to cover most (~ 70%) of the additional provisioning needed given the currency moves with pre-provision earnings
 - + The deterioration in the reported NPL ratios at 3Q16 remained modest (just +1bp at the sector level to 3.3%)
 - + Banking system Tier 1 and total capital ratios closed 3Q16 at 13.8% and 16.0%, respectively
- Among the worst-affected asset classes following the US elections
 - Every 10% of depreciation is a 40-50bp headwind for T1, ie 150bps shaved off since 3Q16 (USDTRY depreciated 30% in the period)
 - Fitch downgrade (Jan '17) will increase the risk weighting for FX sovereign exposure, FX reserves held with the CBT and FX exposure to other Turkish banks from 50% to 100%
 - NIMs unlikely to improve further as banks face pressure on the asset side to re-price loans
 - One of the weaker spots of the Q3 results season was asset quality. After several quarters of broad stability, gross NPL inflows increased: category 2 (watch list) loans, but not past due + Category 1 (performing) restructured loans totalled 8.2% in Q3 from 7.6% in Q2
 - IFRS 9 coming in 2018, banks would generally have to recognise losses sooner than under the old approach. The biggest difference in provisioning could be for the category 2 loans, as under IFRS 9 the banks have to raise a provision taking into account the lifetime expected loss of a loan as soon as it starts underperforming

TRY weakness and Fitch downgrade weights on investor sentiment

FX loans/Total (%)



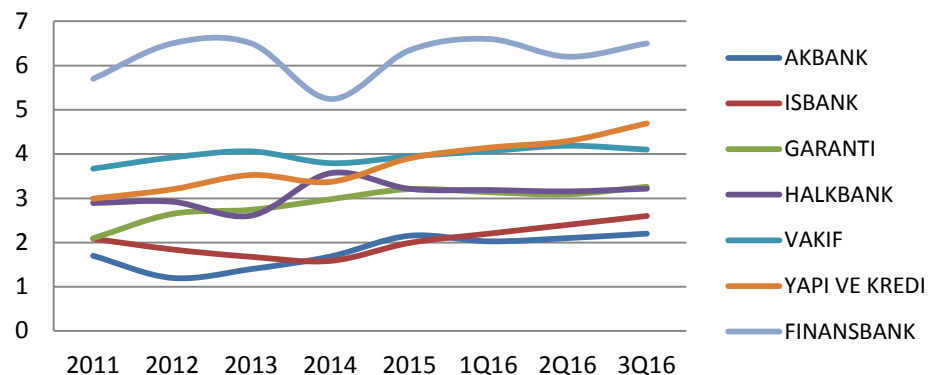
FX loans/T1 (%)



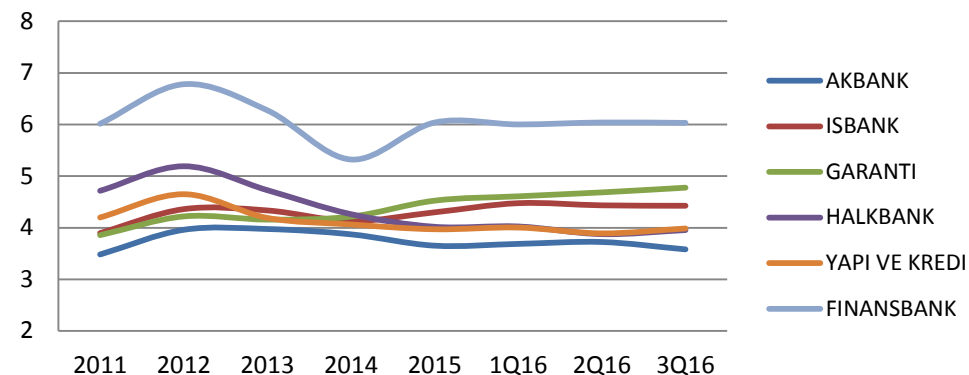
- Fitch downgrade on 27 Jan represented a further headwind for capital ratios of Turkish banks, as they currently use Fitch when calculating their risk weights for FX sovereign exposure, FX reserves held with CBT and FX exposure to other Turkish banks. With the sovereign downgrade these risk weights will increase from 50% to 100%.
- The regulator BRSA approved the use of the Islamic International Agency (IIRA) for calculating the risk weights if Fitch downgrades Turkey to HY, it is likely that the banks will keep using Fitch rating to maintain international credibility and access to the funding markets.
- The banks might be able to reduce the impact of the Fitch downgrade on capital by converting some of their Reserve Option Mechanism (ROM) reserves from FX to TRY.
- Even though reported capital ratios are likely to be meaningfully lower in 4Q16 versus 3Q16 due to the depreciation of TRY in the period, the loss-absorbing cushions remain substantial. The NPL will have to increase several fold from the last reported level of 3.3% and USDTRY jump to and remain through 4.5 for a sustained period of time before the banks breach regulatory capital level. Even then, BRSA might choose to suspend the regulatory target for CAR of 12% to alleviate pressures on local banks (as it is not a Basle 3 requirement).
- The rollover ratio stood at 110% at end-Nov and both large relationship loans as well as access to international capital markets remain open for Turkish banks. It is likely that when the noise subsides somewhat, the banks will try to issue Tier 2 capital to boost their depleted capital levels.

Fundamentals are weaker but loss absorption cushions still in place

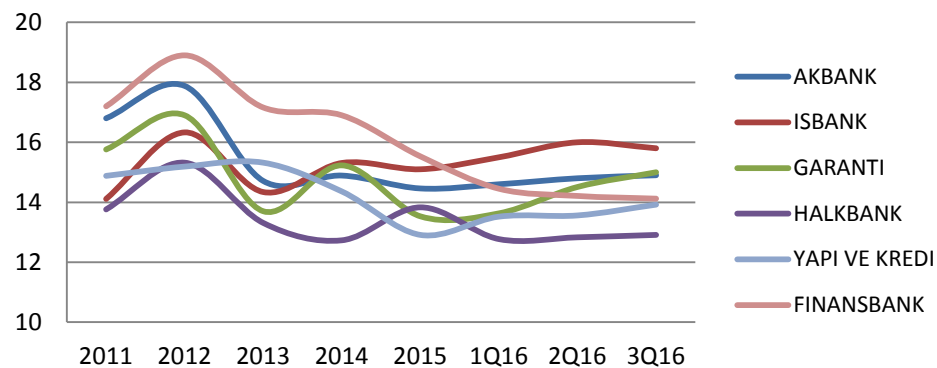
NPLs %



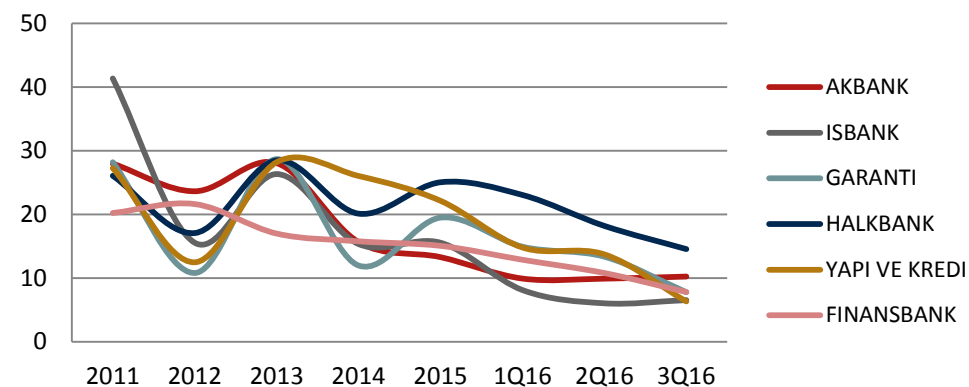
Net Interest Margins (NIM) %



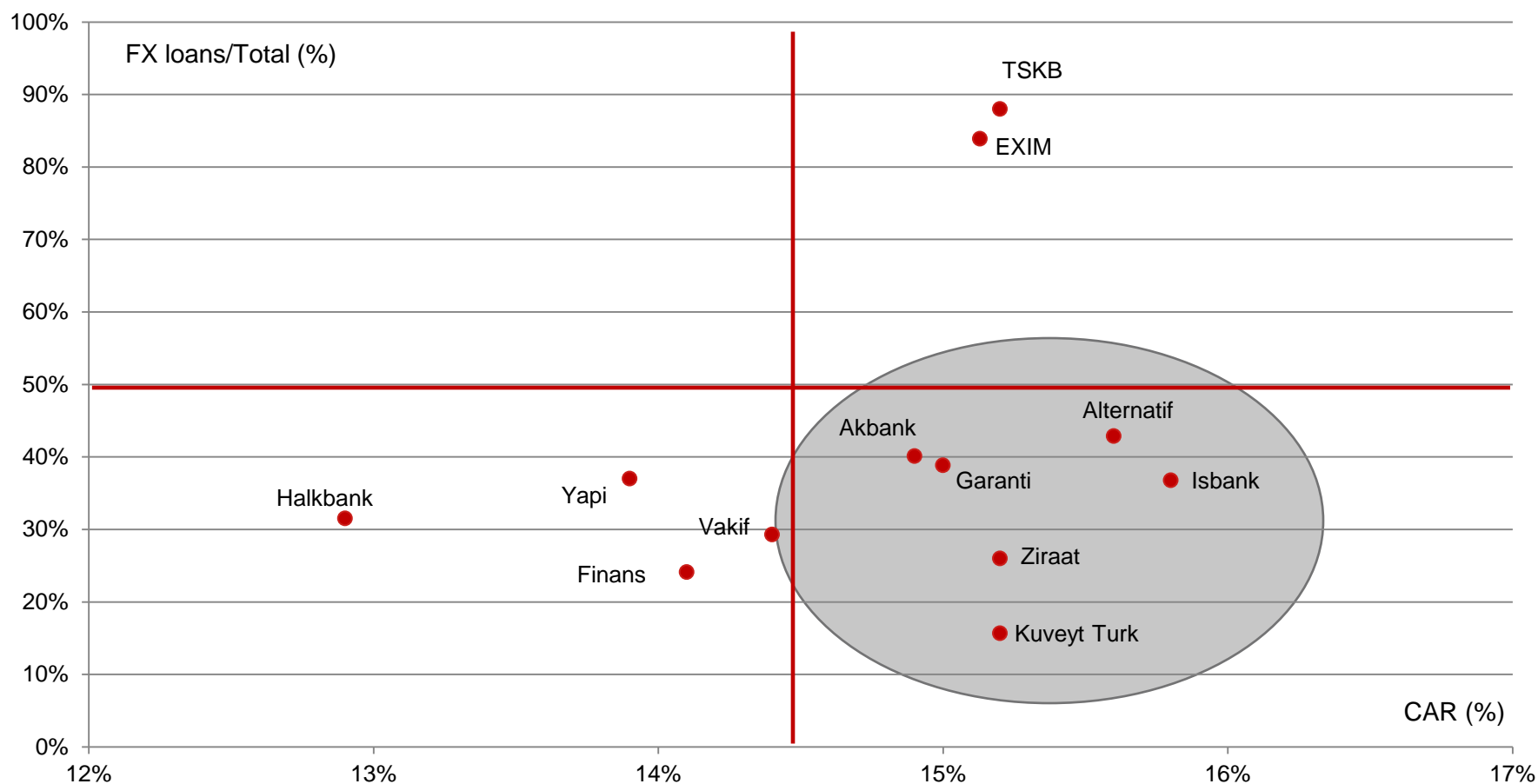
Tier 1 Capital %



Loan Book Growth YoY %



Best combination of high CAR and low FX exposure at Akbank, Isbank, Garanti, Ziraat

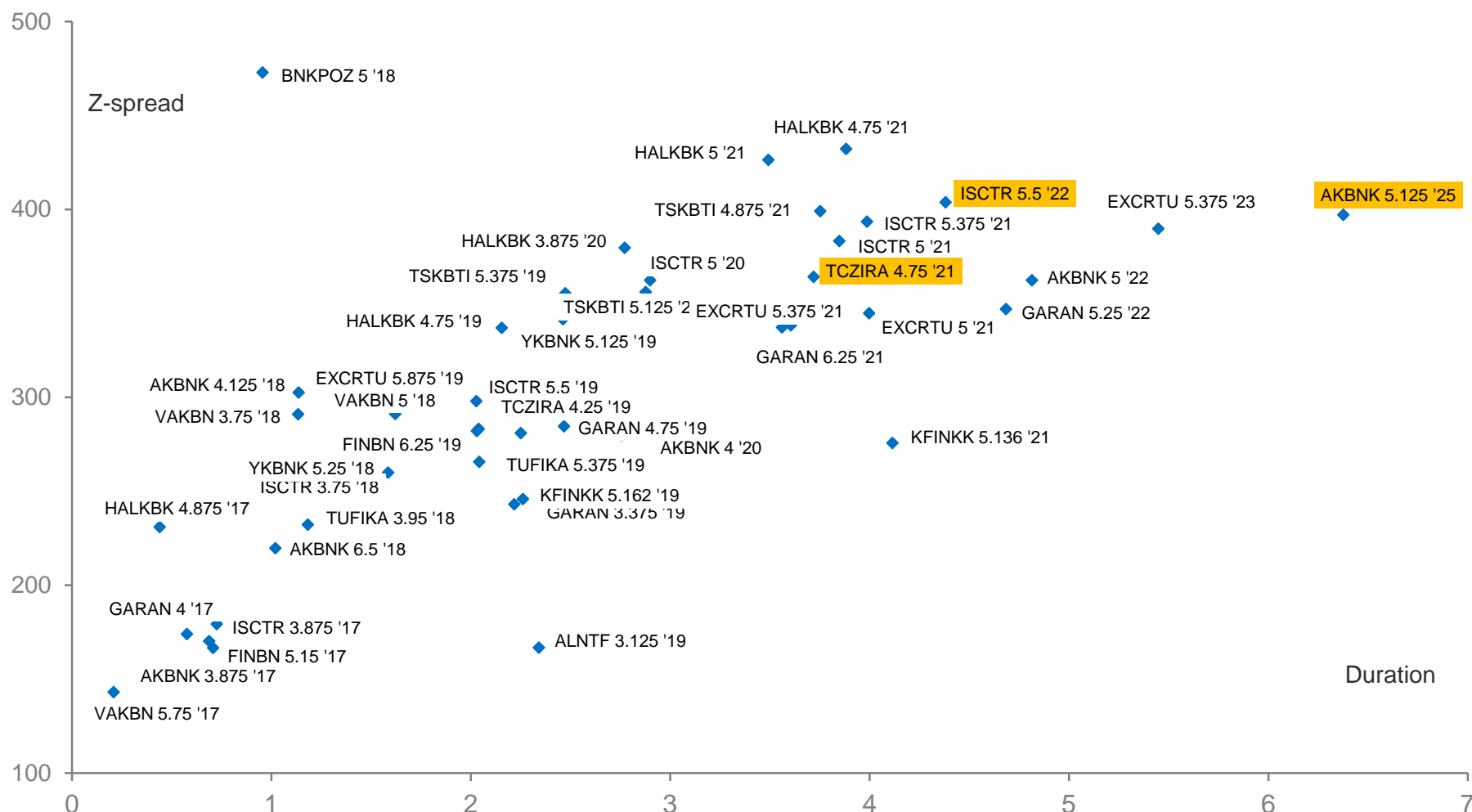


TURKEY CORPORATES

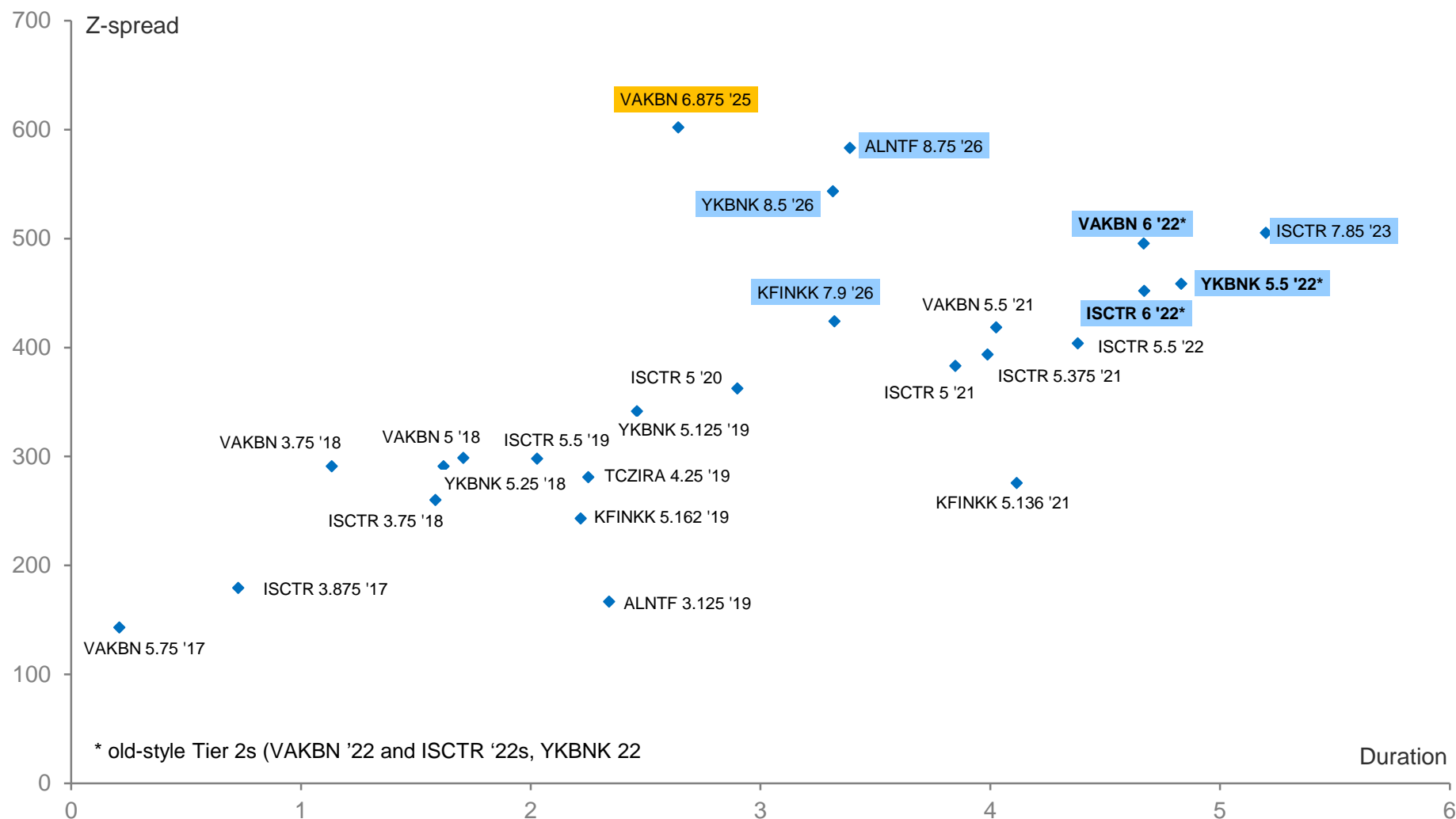
Company	Net Debt/EBITDA				Cash/ST Debt				EBITDA				EBITDA margin				Capex				Free Cash Flow			
USD mil	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM
Turk Telekom	1.5x	1.3x	1.7x	2.0x	0.9x	0.9x	0.8x	1.3x	2,511	2,175	1,908	1,825	36.4	34.9	35.6	34.0	1207	993	1224	1600	720	968	398	-247
Turkcell	-1.4x	-1.5x	0.3x	0.5x	4.1x	2.3x	5.8x	3.5x	1,866	1,637	1,422	1,626	31.1	29.7	30.2	35.0	710	819	704	981	833	525	279	-265
Anadolu Efes	2.0x	1.8x	2.0x	1.8x	1.3x	1.4x	4.3x	3.2x	770	765	634	582	15.9	16.7	16.9	16.7	618	479	403	268	11	191	223	262
Coca Cola Icecek	1.8x	2.0x	2.3x	1.8x	2.1x	2.2x	2.1x	2.9x	461	433	381	376	16.9	15.8	15.4	15.8	371	337	306	182	-23	5	17	171
Koc Holding	2.8x	3.2x	2.1x	2.0x	1.7x	0.9x	0.8x	1.8x	1,481	1,383	2,420	2,129	4.3	4.4	9.4	9.2	2084	1854	1292	1079	-367	-191	-685	1575
Arcelik	2.5x	2.3x	2.2x	1.4x	0.3x	1.0x	0.3x	1.1x	626	619	559	592	10.7	10.8	10.7	11.1	269	207	236	228	-149	102	274	485
Tupras	3.6x	4.6x	1.8x	1.7x	3.4x	5.0x	1.6x	2.2x	422	383	1,419	1,046	2.0	2.1	10.4	9.3	1187	1033	355	282	156	43	-386	1243
Mersin	0.1x	-0.6x	-1.0x	2.0x	1.8x	0.4x	0.6x	10.5x	86	179	177	171	nm	59.7	60.7	61.2	7	4	57	114	78	171	121	37
Sisecam	1.7x	0.8x	1.0x	0.9x	0.8x	0.7x	1.6x	2.0x	503	594	538	533	16.0	18.9	19.7	19.4	876	520	408	378	-549	-126	-55	-82

Company	Rating	Bonds	Z	Gross lev.	Z per turn of leverage
Turk Telekom	NA / BBB- / BBB-	TURKTI 3.75 '19	200.6	2.5x	80.7
		TURKTI 4.875 '24	354.3	2.5x	142.5
Turkcell	Baa3 / BBB- / BBB-	TCELLT 5.75 '25	363.4	1.7x	218.0
Anadolu Efes	Baa3 / BBB- / NA	AEFES 3.375 '22	304.3	3.1x	98.1
Coca Cola Icecek	Baa3 / NA / BBB-	CCOLAT 4.75 '18	147.0	2.9x	51.2
Koc Holding	Baa3 / BBB- / NA	KCHOL 3.5 '20	188.2	4.7x	39.8
		KCHOL 5.25 '23	317.2	4.7x	67.2
Arcelik	NA / BB+ / BB+	ACKAF 3.875 '21	287.9	2.9x	98.1
		ACKAF 5 '23	353.9	2.9x	120.6
Tupras	Ba1 / NA / BBB-	TUPRST 4.125 '18	207.6	4.0x	51.8
Mersin	Baa3 / NA / BBB-	MERSIN 5.875 '20	242.8	2.8x	87.3
Sisecam	Ba1 / BB / NA	SISETI 4.25 '20	275.9	3.1x	90.0

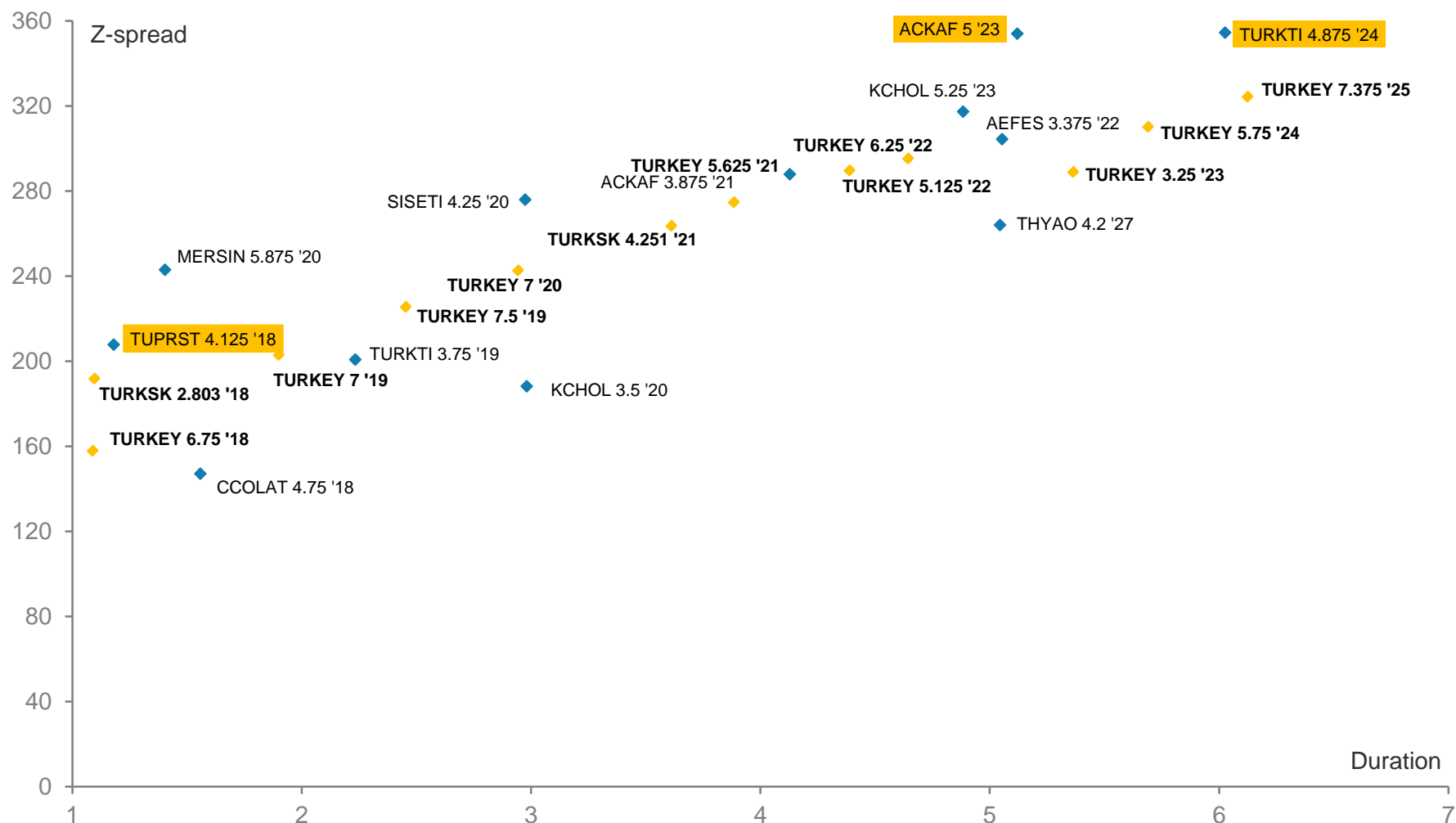
Among Bank seniors, Isbank 22s, Ziraat 21s and Akbank 25s stand out



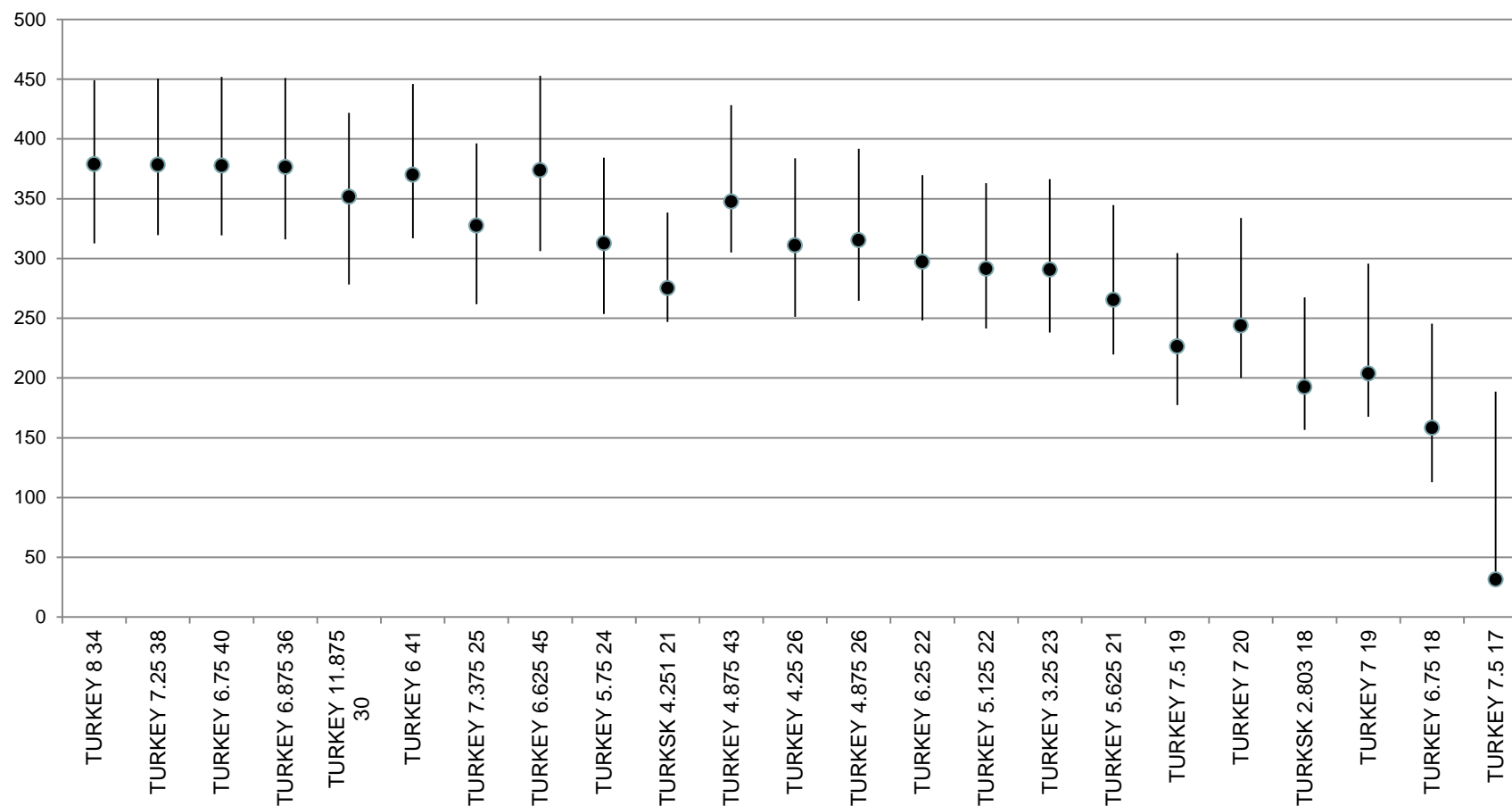
Vakif new style T2 stands out



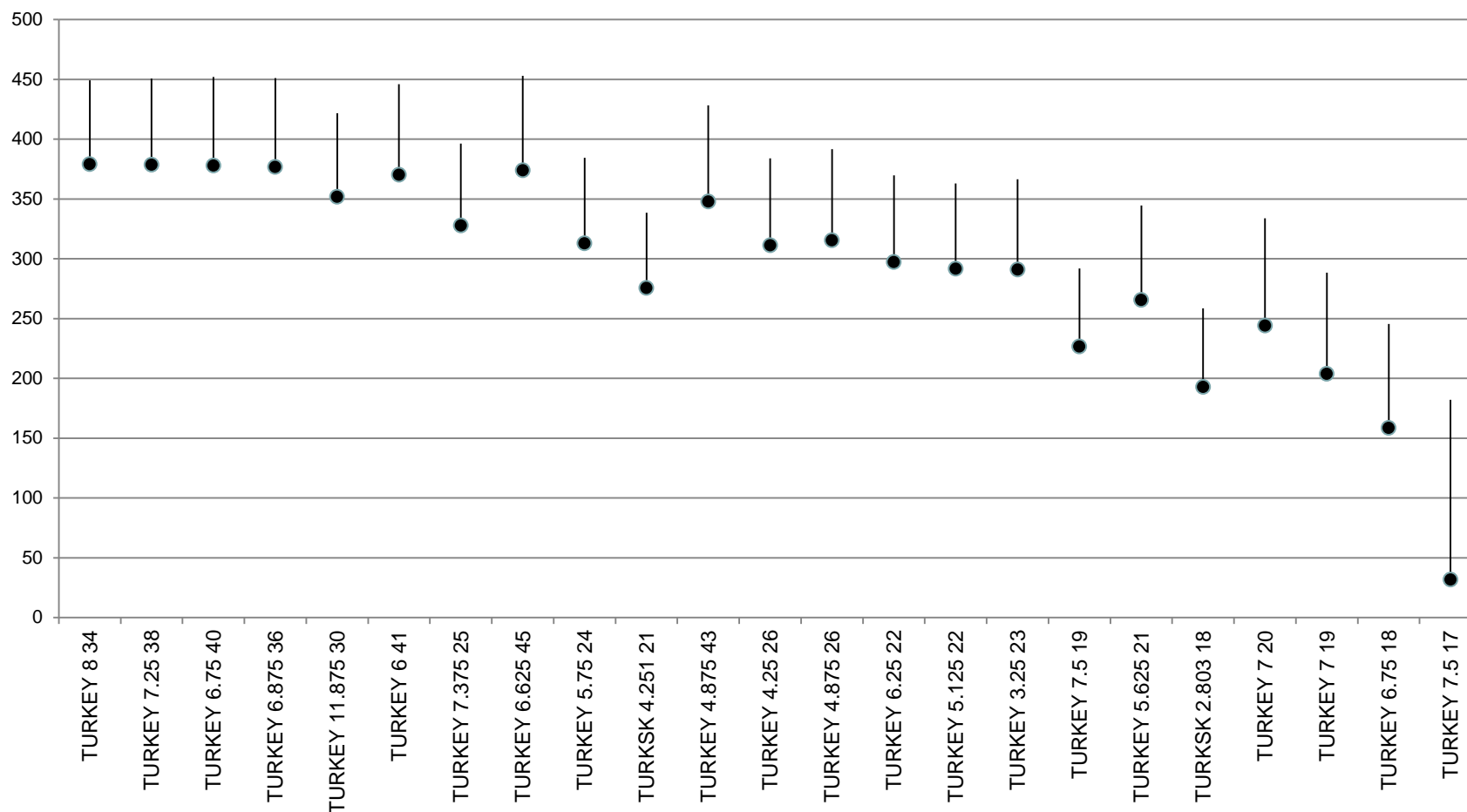
Some differentiation among corporates but spreads over sovereign tight, prefer sovereign



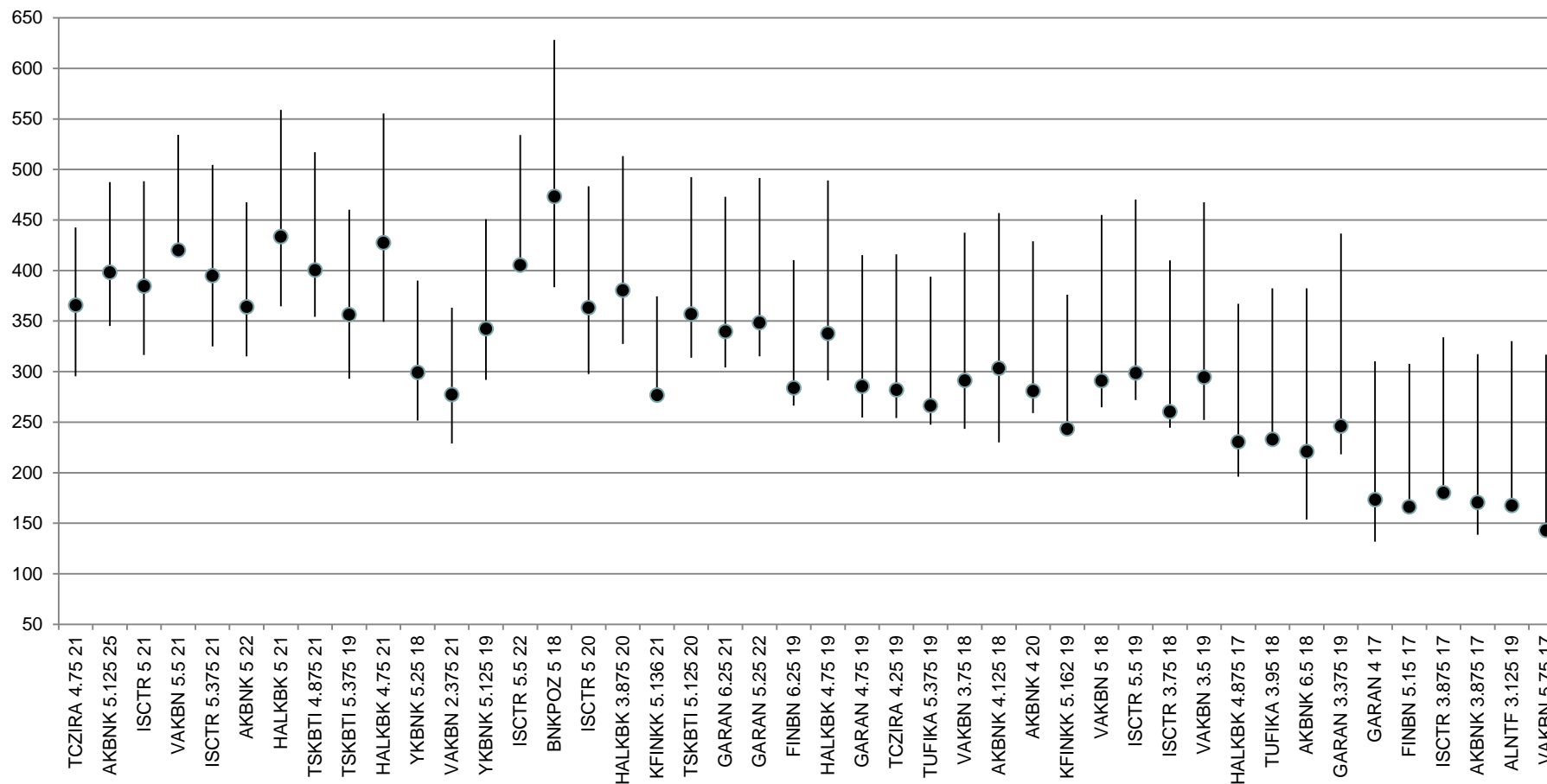
Turkey sovereign: the belly and long end feeling the pain (1yr Z-spread range & current spot)...



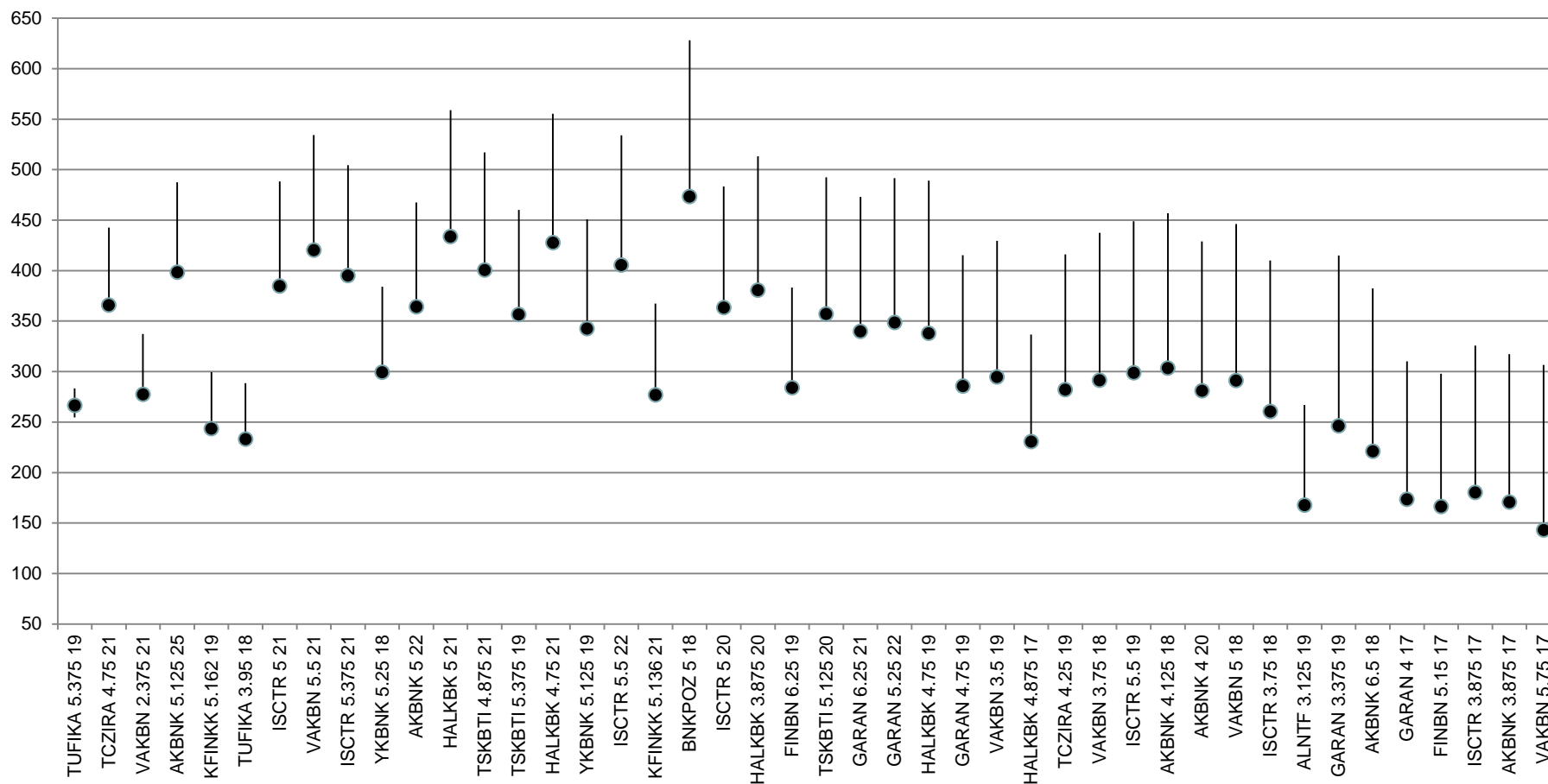
... but we are back to pre-US elections levels (3mo Z-spread range & current spot)



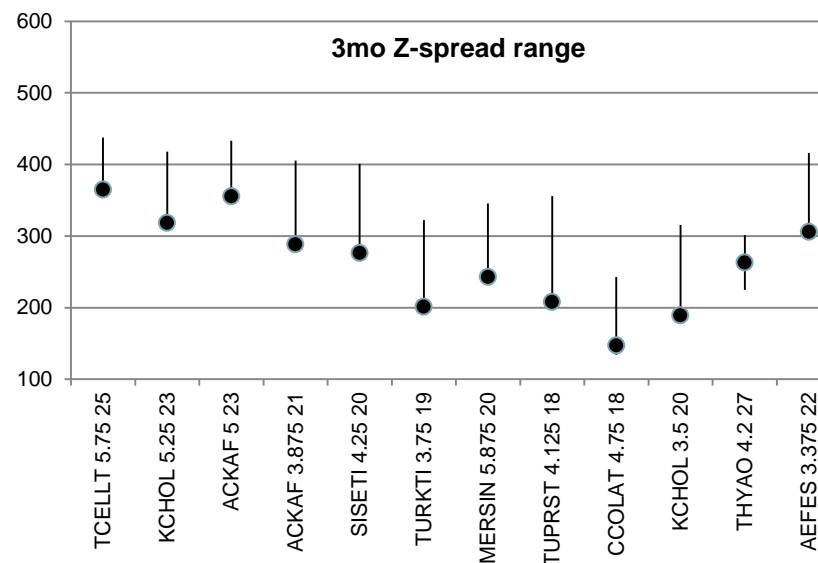
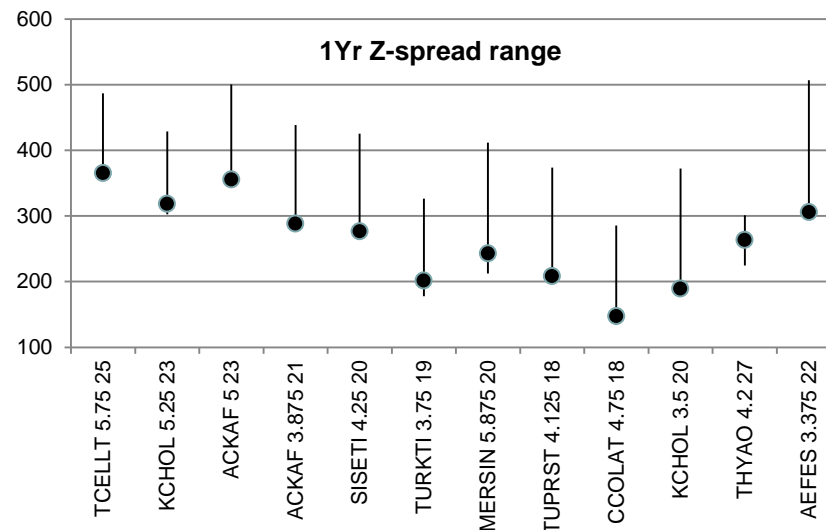
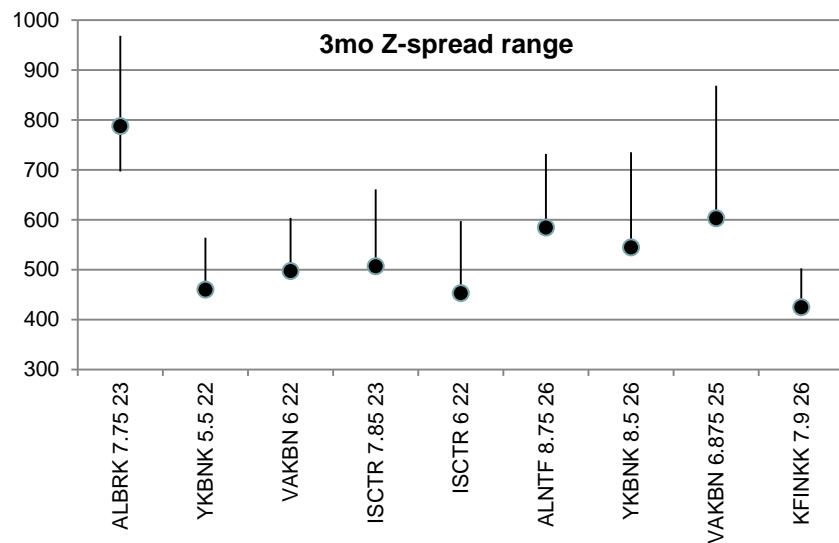
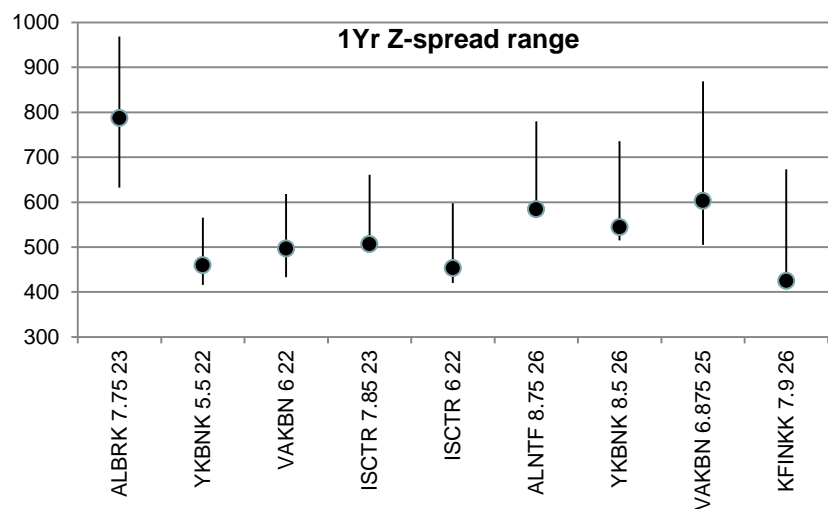
Bank seniors (1yr Z-spread range & current spot)... some value left despite the post-Fitch downgrade rally



Just like the sovereign, trading at the 3mo trading tights



Bank subs (T2) and corporate bonds (1yr and 3mo Z-spread range & current spot)



Supply likely to weigh on sentiment into 2017

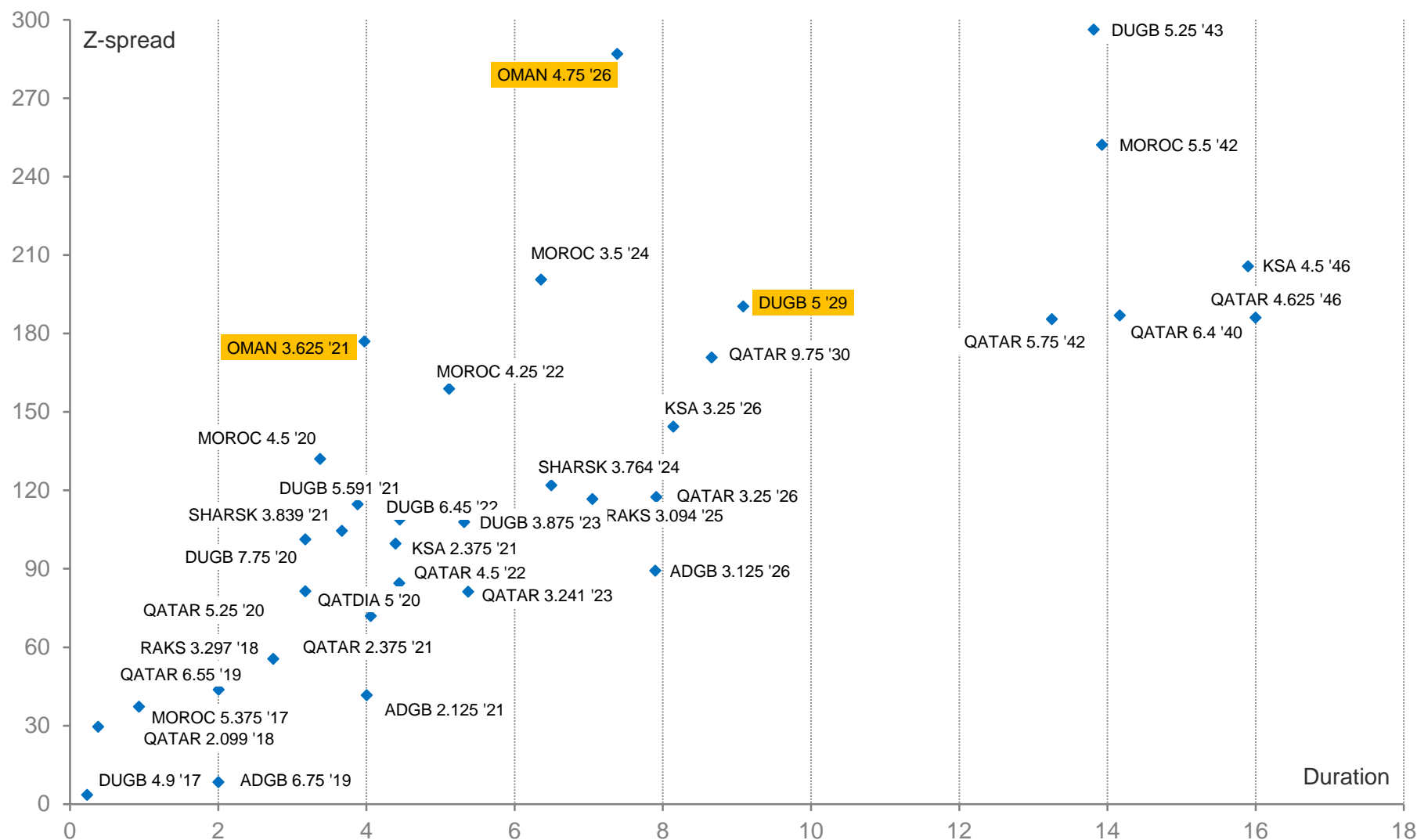
GCC: GDP, Growth, Fiscal Balance, Public Debt, and Public Foreign Assets

	GDP (\$bn)	Debt (%GDP)	Foreign Assets (% GDP)	Real GDP growth (% change)			Fiscal balance (% GDP)			Current Account Balance (% GDP)		
	2016	2016	2016	2015	2016	2017	2015	2016	2017	2015	2016	2017
GCC	1379	35	165	2.9	1.9	1.8	-8.7	-8.7	-5.3	-2.8	-5	-1.2
Bahrain	32	75	24	2.9	2.8	2.6	-13	-14.6	-11.7	-0.6	-4.9	-2.1
Kuwait	113	16	519	1.8	1.8	2.4	1.6	-2.9	1.9	5.2	-5.3	-1.6
Oman	68	24	73	3.7	1.9	2	-17.2	-18.1	-12.5	-15.5	-16.8	-8.9
Qatar	161	55	157	3.6	2.3	3.3	5.5	-5.6	-4.4	8.4	-1.1	-2.2
Saudi Arabia	638	16	113	3.5	1.3	0.8	-16.5	-12	-7.5	-8.3	-7.8	-1.7
UAE	366	61	186	3.4	2.5	2.8	-2.3	-3.8	-2.4	2.1	1.9	4.2

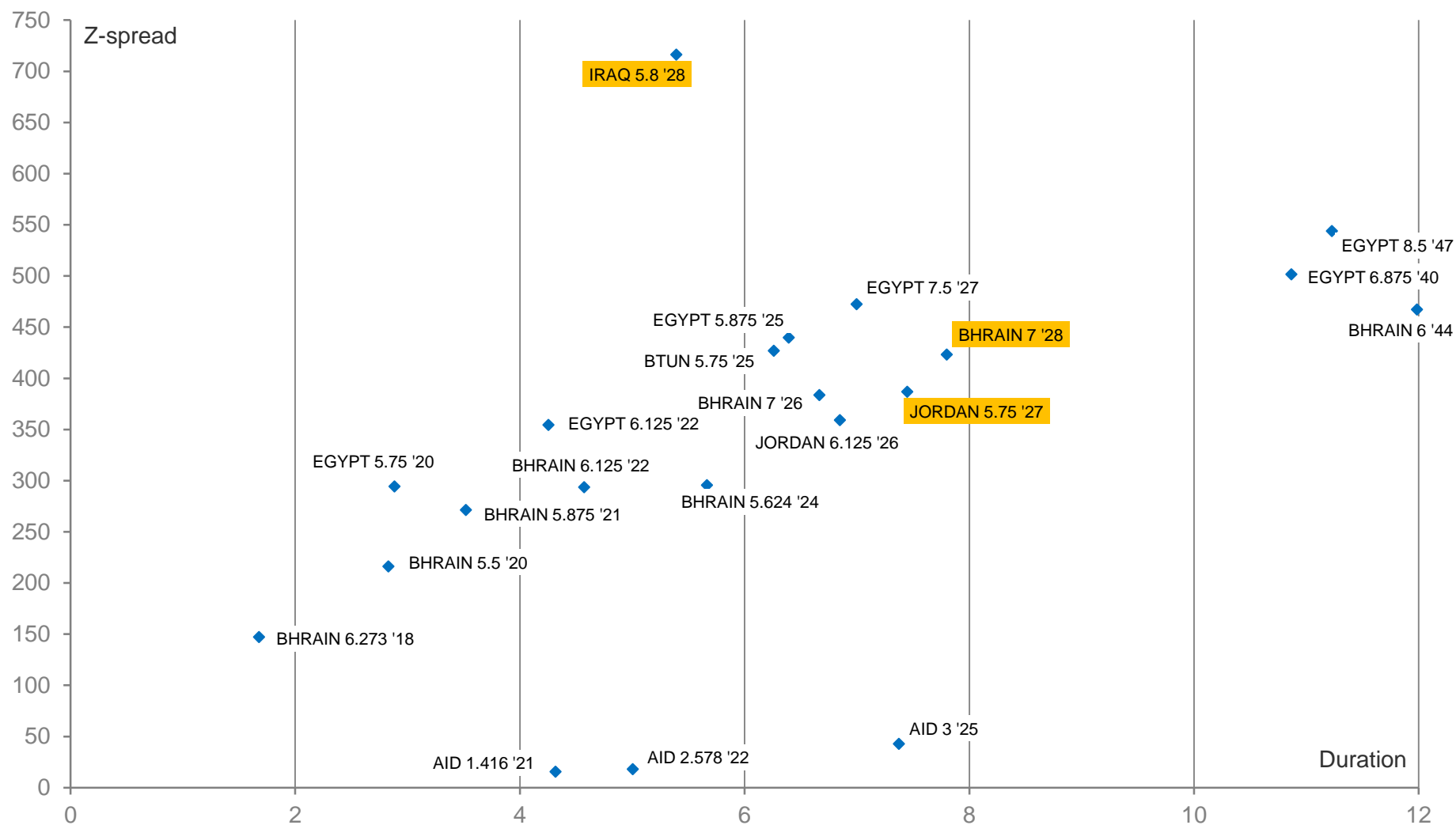
Source: National Sources, IIF estimate for 2015 and forecast for 2016 and 2017.

	Sovereign	Corporate	Banks	Sectors	Likes
Middle East	<ul style="list-style-type: none"> Low oil prices dampened the prospects of macroeconomic growth in 2015/2016 GCC responded to a sharp fiscal deterioration by reforms, reducing public investment and subsidies The region has become increasingly reliant on int'l borrowing to fund deficits Potential high supply from the region (Saudi, Kuwait) could weigh on sentiment and spreads into 2017 Strong technical bid from locals and Asian investors expected to continue 	<ul style="list-style-type: none"> GCC corporate fundamentals have generally been resilient Corporates are somewhat insulated from FX volatility due to the currency pegs across the region Credit metrics supported by solid cash management and limited plans for re-leveraging Names with higher indebtedness are largely quasi-sovereigns which in turn rely and benefit from direct/indirect government support (TAQA, IPIC, Mubadala, SECO) 	<ul style="list-style-type: none"> Sustained low oil prices weakened sovereign ability to provide support to banks but propensity is still very high Impaired loans ratios are likely to increase mildly; some deterioration particularly in the contracting segment and SMEs Low deposit growth will put pressure on the ability to lend, but should be matched by low loan growth Capital levels should be sustained at 2016 levels due to little new lending and are above international peers 	<ul style="list-style-type: none"> Lower oil prices, slowing global trade and government spending cuts weakened revenue growth. This is especially the case for trade, transport, oil, retail and real estate As regional private consumption (particularly from Saudi Arabia) faces headwinds from cuts and higher expenses, demand in some segments has weakened (luxury real estate, malls) 	<ul style="list-style-type: none"> Supply hindered performance into 2017 as many credits are expensive, especially in the banking segment Like credits with solid recurring income like Emaar or DP World. Emirate Airlines, 100% owned by the government, is a way to express the view on Dubai sovereign. I also like the names that were upgraded in 2016, showing resilience in their credit profiles such as OOREDOO (Qtel). Out of quas, OCP stands out Equate Petroleum traded with a decent spread over the implied Kuwait curve in Dec but tightened to FV/rich; the new sukuk might be better way to play the name

Oman 21/26s, Qatar 30s and Dubai 29s stand out



Jordan, Iraq and Bahrain stand out among the HY segment



Worsened outlook but propensity of sovereigns to provide support remains high

- + Strong record of sovereign support and high level of sovereign or sovereign-linked ownership
- + Capital levels should be unchanged in 2017 due to lower loan growth. Ratios are still above international peers
- + No material risks on FX liquidity, with foreign assets held by the banks matching or exceeding FX debt and deposits in all GCC countries
- + Relatively high pre-impairment profitability allows banks to absorb higher impairment charges (even with implementation of new IFRS 9 from Jan 2018 that stipulates higher provisioning)
- + Non-oil growth rates to pick up again in 2017 as economies overcome the initial shock of government cutbacks
- + Falling sovereign-related deposits seems to have abated with government issuance and subsequent liquidity injections in the banking systems
- + Liquidity tightening has started from a very high base, with exceptionally high liquidity in the market in recent years due to high oil
- Lending portfolios to season quicker, lending growth still slow and consequently impaired loans ratios to increase mildly
- Liquidity stabilised but continues to pressure GCC banks, and may still deteriorate in some markets. The main reason is that, due to falling oil revenue, government deposits in banks have been shrinking/not growing as fast as in the recent past. The ability to raise further deposits is likely to pressure loan growth in all GCC countries, but in particular in Oman, Qatar and Saudi Arabia
- The main consequence of tighter liquidity are higher funding costs, both higher cost of term customer deposits and interbank deposits
- Key risk to capital ratios is a rise in interest rates (GCC governments tend to follow the US Federal Reserve rate moves due to the currency pegs) and the indirect impact on the mark-to-market value of the banks' bond portfolios
- Concentration risk (large single names, exposure to the real-estate market and contracting, other high sector concentrations)
- Exposure to domestic equities (through share-related lending or through collateral against corporate loans or lending to high-net-worth individuals)
- Exposure to real estate: Dubai and commercial real estate in Qatar have seen price correction in some areas

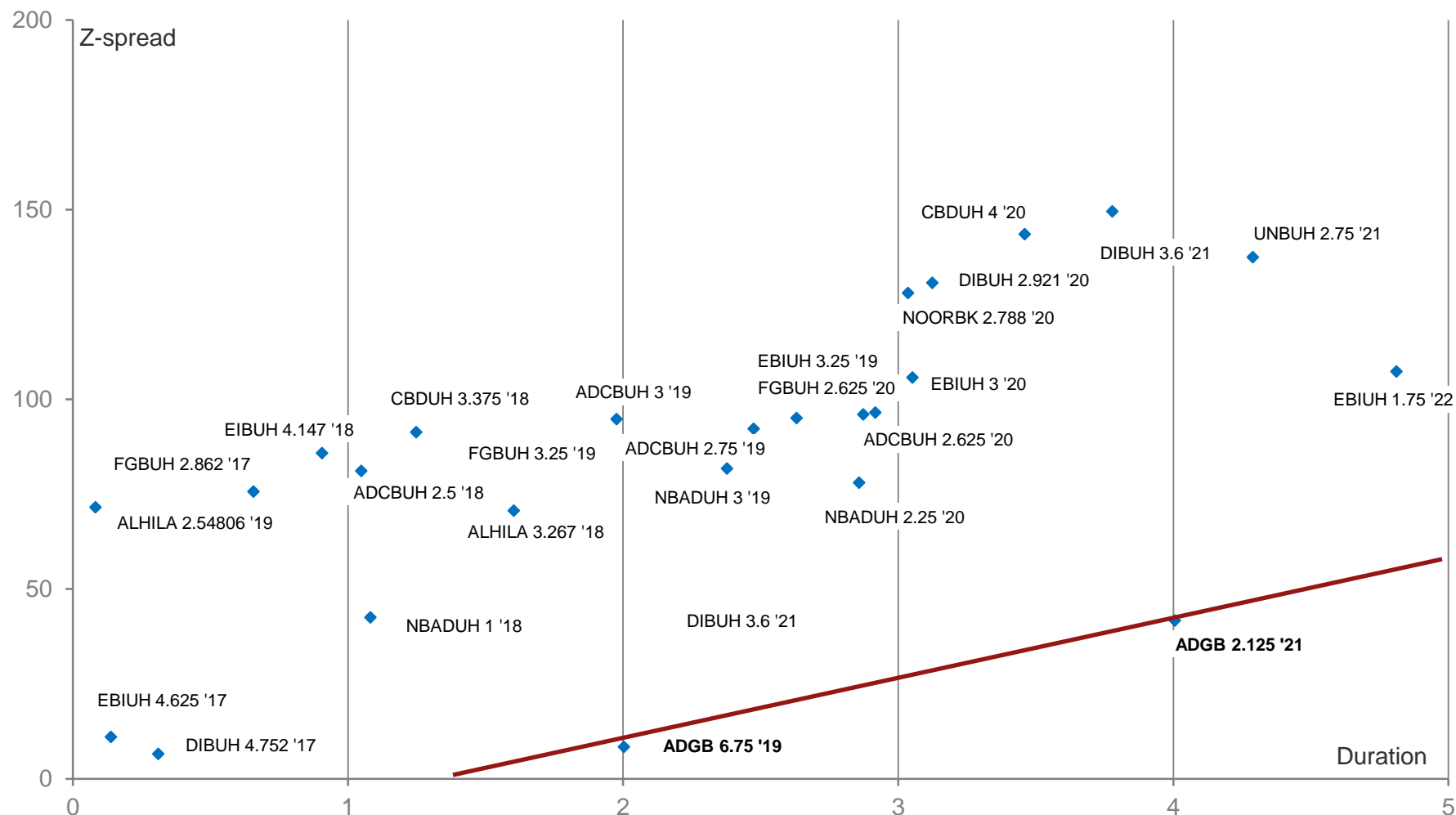
Solid fundamentals reflected by tight spreads over sovereign

MIDDLE EAST BANKS

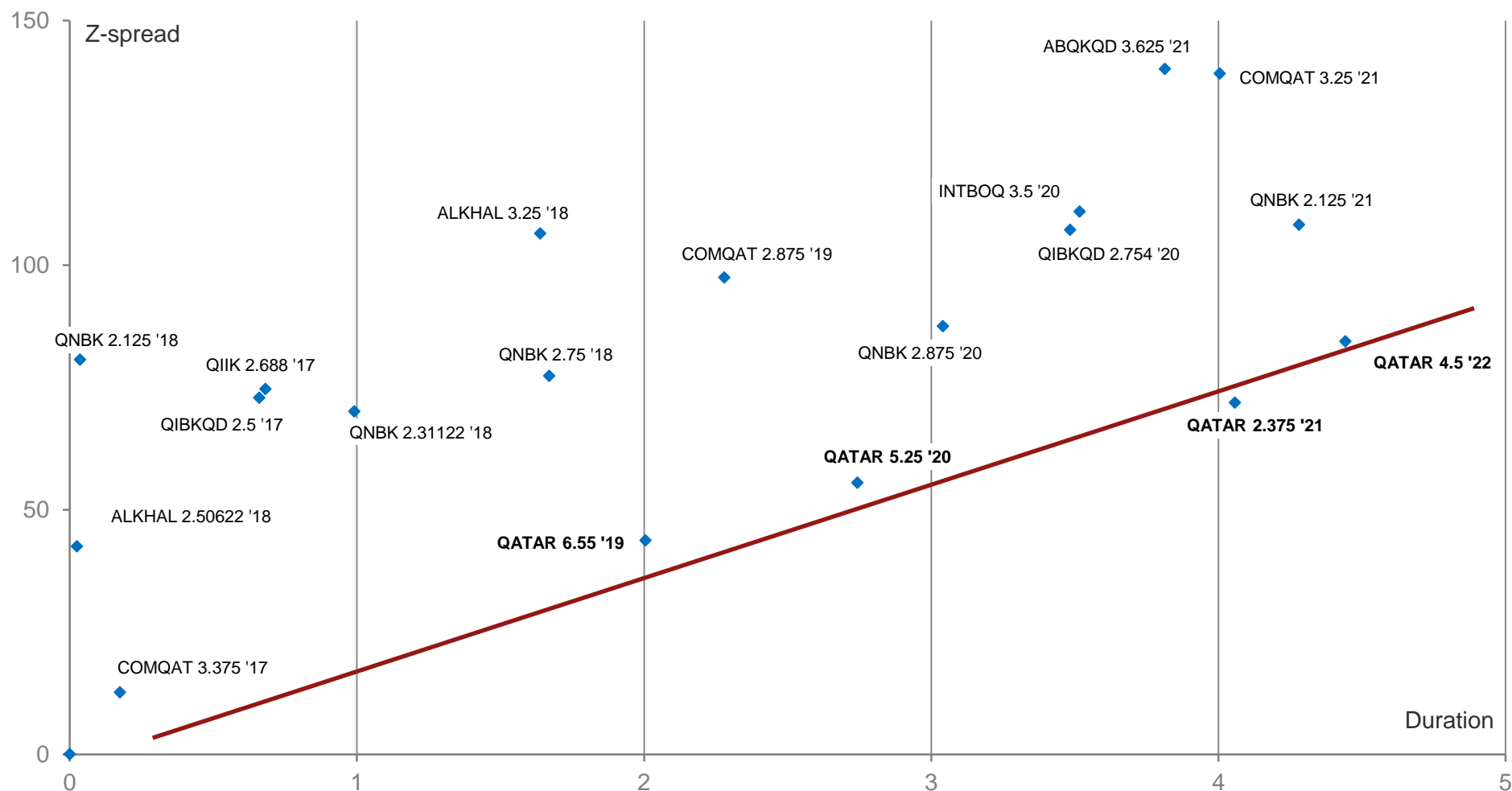
Company	NPLs (%)				LLR (%)				ROE (%)				ROA (%)				Tier 1 (%)				CAR (%)			
USD mil	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM
NBAD	3.2	3.1	2.8	2.7	105.2	108.2	104.8	110.5	15.5	16.7	14.3	13.5	1.4	1.5	1.3	1.2	16.5	15.0	15.7	15.8	18.2	16.4	16.7	17.0
ADCB	4.1	3.1	3.2	2.6	120.4	147.0	127.7	133.1	19.4	22.5	20.3	17.09	1.7	2.0	2.2	1.8	16.6	17.0	16.3	14.72	21.2	21.0	19.8	17.98
FGB	2.9	2.5	2.8	2.6	101.9	126.7	102.9	114.2	17.5	19.3	19.1	19.8	2.5	2.7	2.7	2.6	16.4	16.2	16.2	19.7	17.5	17.5	17.5	18.4
UNB	4.3	3.8	3.5	3.7	90.7	97.2	107.7	101.2	12.9	13.6	11.7	11.0	1.9	2.1	1.8	1.7	18.7	18.7	18.3	17.4	19.9	19.9	19.4	18.6
ENBD	13.9	7.8	7.1	6.4	57.5	100.3	111.5	120.8	8.6	13.0	16.6	17.0	0.9	1.3	1.7	1.8	15.3	18.0	18.0	18.0	19.6	21.1	20.7	20.5
DIB	9.0	6.6	4.1	4.4	116.5	139.6	185.0	110.0	15.2	21.5	25.5	17.4	1.4	2.0	2.3	2.4	18.2	14.7	15.5	18.0	18.2	14.9	15.7	18.2
QNB	1.6	1.6	1.4	1.8	123.2	124.2	127.3	130.0	19.0	19.0	19.1	21.1	2.3	2.2	2.2	2.0	15.6	16.2	16.3	14.3	15.6	16.2	16.3	20.9
COMQAT	3.6	3.8	4.2	5.3	63.0	74.3	70.9	78.8	11.1	12.1	8.2	3.6	1.7	1.5	1.0	0.5	12.6	13.1	11.8	10.0	14.1	15.2	13.5	15.8
AL KHALIJI	0.3	1.4	0.9	1.2	322.9	48.8	89.4	94.0	9.7	9.9	10.6	9.0	1.5	1.2	1.2	1.0	16.7	15.3	13.8	15.8	18.4	15.3	13.8	15.8
BURGAN	4.2	3.9	4.1	4.1	78.0	88.9	92.6	92.3	5.1	8.0	6.4	12.8	0.4	0.6	0.6	1.5	9.9	12.2	14.7	12.9	15.4	13.5	15.6	15.8

Company	Rating	Bonds	Z	Over Sov
NBAD	Aa3 / AA- / AA-	NBADUH 2.25 '20	78.0	69.6
ADCB	A1 / A / A+	ADCBUH 2.625 '20	96.5	88.1
FGB	A2 / NA / A+	FGBUH 2.625 '20	96.0	87.6
UNB	A1 / NA / A+	UNBUH 2.75 '21	137.5	95.8
ENBD	A3 / NA / A+	EBIUH 3.25 '19	95.0	86.7
DIB	Baa1 / NA / A	DIBUH 3.6 '21	149.5	107.9
QNB	Aa3 / NA / AA-	QNBK 2.125 '21	108.2	36.4
COMQAT	A2 / BBB+ / NA	COMQAT 3.25 '21	139.1	67.3
AL KHALIJI	A3 / NA / A+	ALKHAL 3.25 '18	106.4	62.8
BURGAN	A3 / BBB+ / A+	BGBKKK 3.125 '21	142.4	na

Among Bank seniors, UNBUH 21s stand out

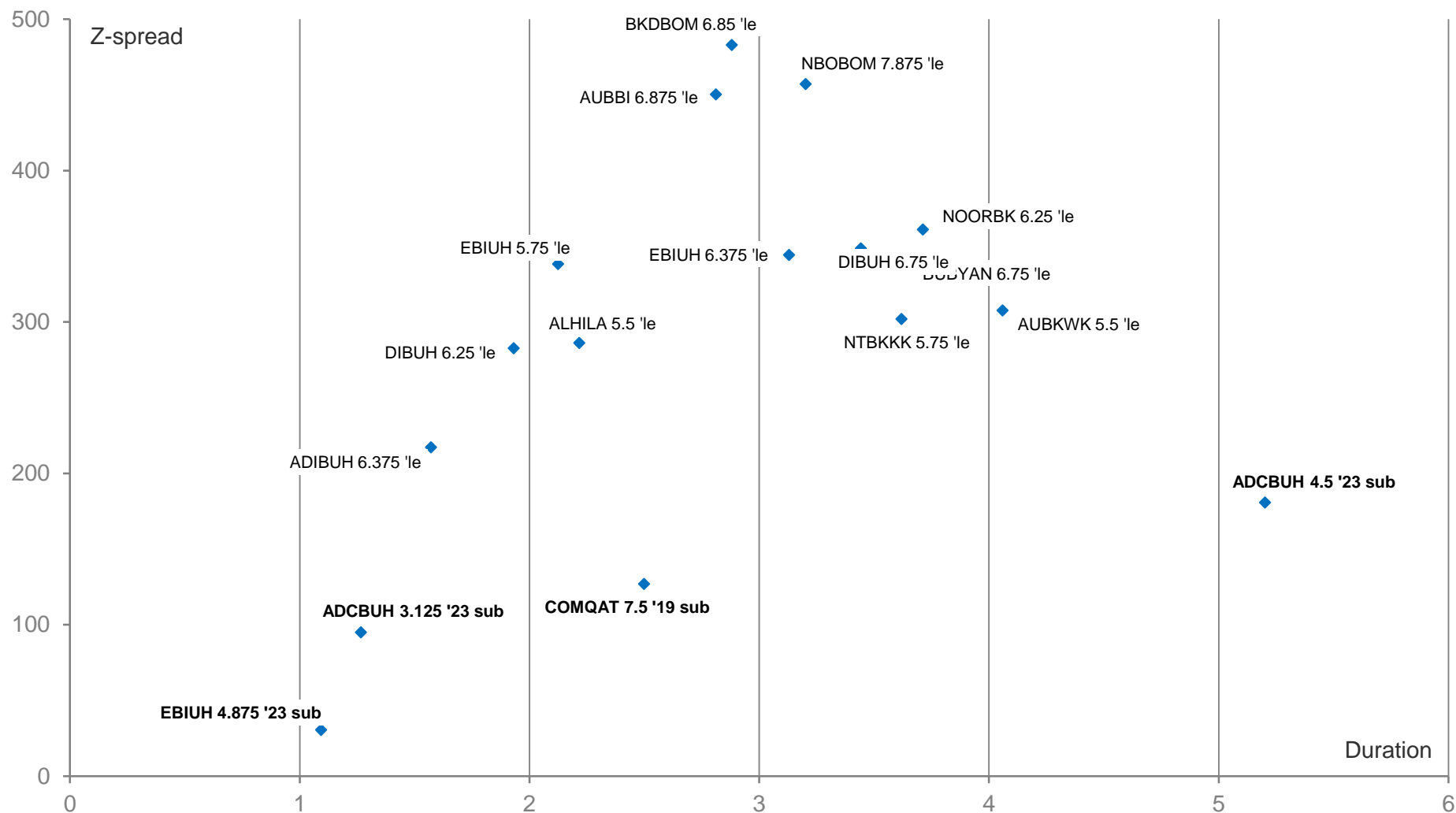


Bank premium to the Sovereign is limited



Source: Nomura CEEMEA Credit Trading Desk, Bloomberg

T1 debt trades ~ 200bps+ over the sovereign



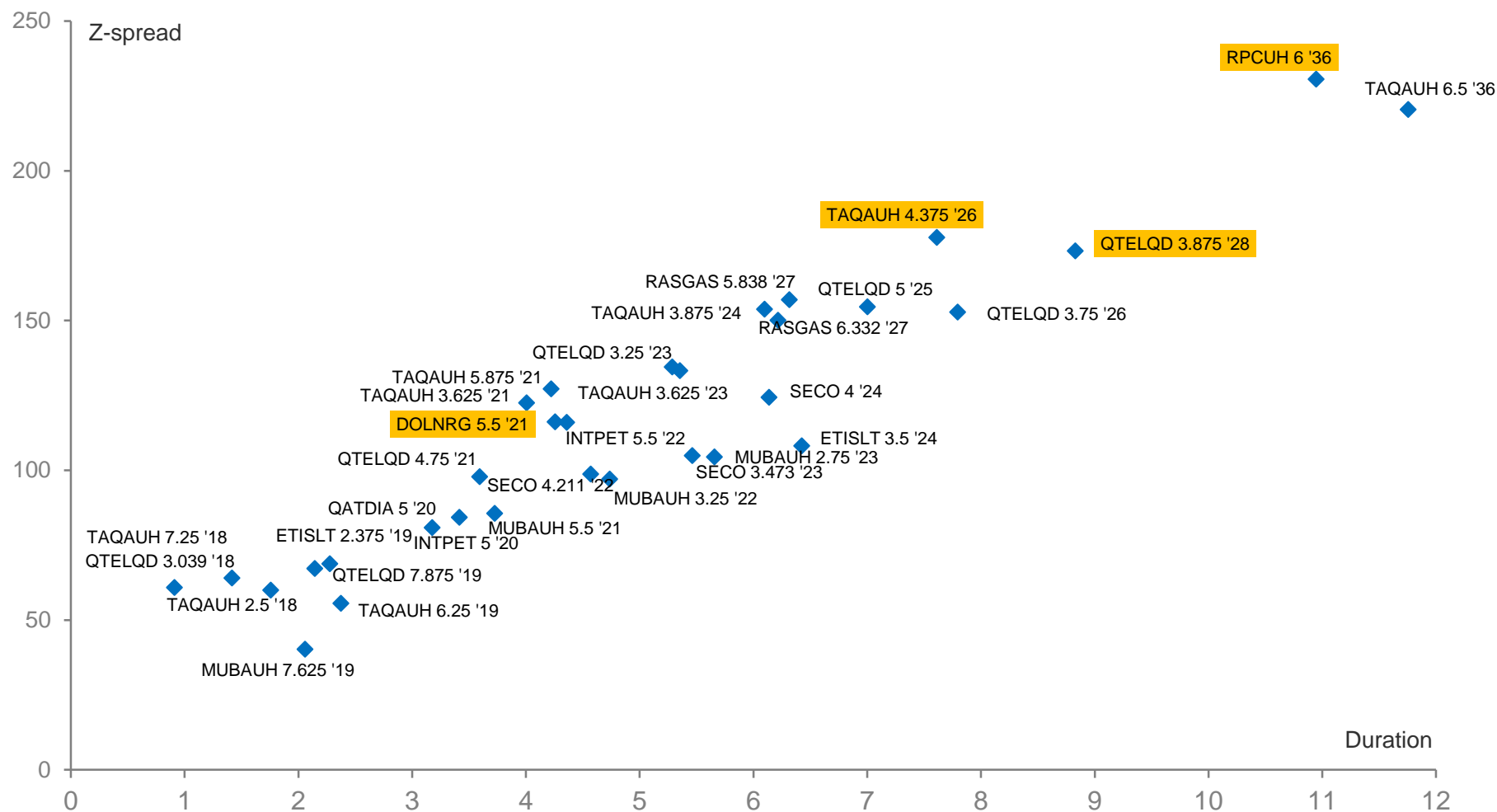
MIDDLE EAST CORPORATES

Company	Net Debt/EBITDA				Cash/ST Debt				EBITDA				EBITDA margin				Capex				Free Cash Flow			
	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM	2013	2014	2015	LTM
<i>USD mil</i>																								
OCF	1.0x	2.5x	2.1x	2.9x	4.1x	2.3x	5.8x	2.3x	1,241	1,265	1,660	1,346	26.8	25.7	33.9	31.2	2376	2319	1294	1049	-1610	-1293	-650	-507
IPIC	6.2x	8.1x	7.6x	7.6x	0.9x	0.9x	0.8x	0.8x	3,423	2,699	2,923	2,923	6.5	5.3	6.9	6.9	2093	2726	3033	3033	1687	523	1104	1104
MUBADALA	4.9x	2.7x	26.1x	nm	2.9x	4.3x	1.5x	3.2x	1071.2	1506.2	278.3	-214.6	12.6	16.9	3.0	-2.4	3362.0	5538.6	4303.3	2371.8	-1281.0	-4613.2	-2868.0	-362.0
DAMAC	-0.9x	-2.3x	-1.3x	-1.4x	8.1x	24.0x	9.4x	8.0x	667.1	472.4	1243.2	1012.7	54.5	46.4	53.5	49.9	4.9	4.0	0.0	2.2	479.2	285.4	656.1	186.5
EMAAR	0.4x	-0.8x	-0.8x	-0.5x	10.5x	8.3x	11.4x	13.8x	1051.0	1270.9	1097.2	1287.7	35.6	44.1	42.1	43.1	17.6	376.6	230.3	452.7	1620.4	1590.6	1276.5	1148.2
MAF	2.0x	2.3x	2.4x	2.6x	0.8x	0.4x	0.6x	0.3x	955.1	963.7	1033.1	1070.1	15.3	14.0	13.9	13.6	596.6	1054.9	1146.3	1220.8	112.8	-165.8	-187.8	-421.2
DARALA	3.5x	5.8x	6.1x	6.1x	3.6x	0.5x	0.7x	1.8x	280.4	301.4	229.9	197.1	35.8	36.8	39.0	39.3	1.1	427.6	143.3	3.7	266.9	-338.9	11.3	264.6
ETISALAT	-0.5x	0.2x	0.0x	0.2x	3.5x	5.1x	5.0x	3.5x	3550.2	4743.6	5257.9	5373.8	33.8	35.9	37.3	37.1	1515.7	1871.7	2390.3	2378.2	1891.6	3088.1	3047.8	3151.7
QTEL	1.6x	1.9x	1.9x	1.9x	2.5x	2.4x	2.7x	3.1x	3944.0	3430.7	3459.2	3508.9	42.4	37.6	39.2	39.5	2553.7	2304.5	2344.6	1813.4	692.0	716.0	479.4	1215.3
DEWA	2.0x	1.4x	0.8x	0.8x	1.3x	0.8x	1.7x	1.7x	2439.6	2635.5	2810.1	2810.1	54.3	54.4	54.1	54.1	949.7	881.5	837.0	837.0	1031.3	1405.1	1636.8	1636.8
DP WORLD	2.0x	1.5x	3.4x	3.1x	9.9x	14.8x	10.0x	10.5x	1207.0	1468.4	1847.8	2057.8	39.3	42.4	45.7	48.7	1025.5	715.3	1167.4	1176.8	2.9	507.5	349.4	367.7
TAQA	5.9x	7.5x	8.3x	9.3x	0.6x	1.6x	0.6x	0.4x	3519.5	2632.7	2335.4	2044.1	50.2	35.4	44.3	44.7	1512.1	1451.9	773.2	380.6	648.5	632.5	523.6	726.7
SECO*	11.1x	11.8x	12.0x	12.7x	0.5x	3.1x	1.6x	1.5x	3655.9	3907.8	4405.6	4554.3	38.6	38.2	40.0	43.5	10915.5	13413.0	14983.8	10649.0	-10172.9	-5126.9	-6725.2	-4965.9

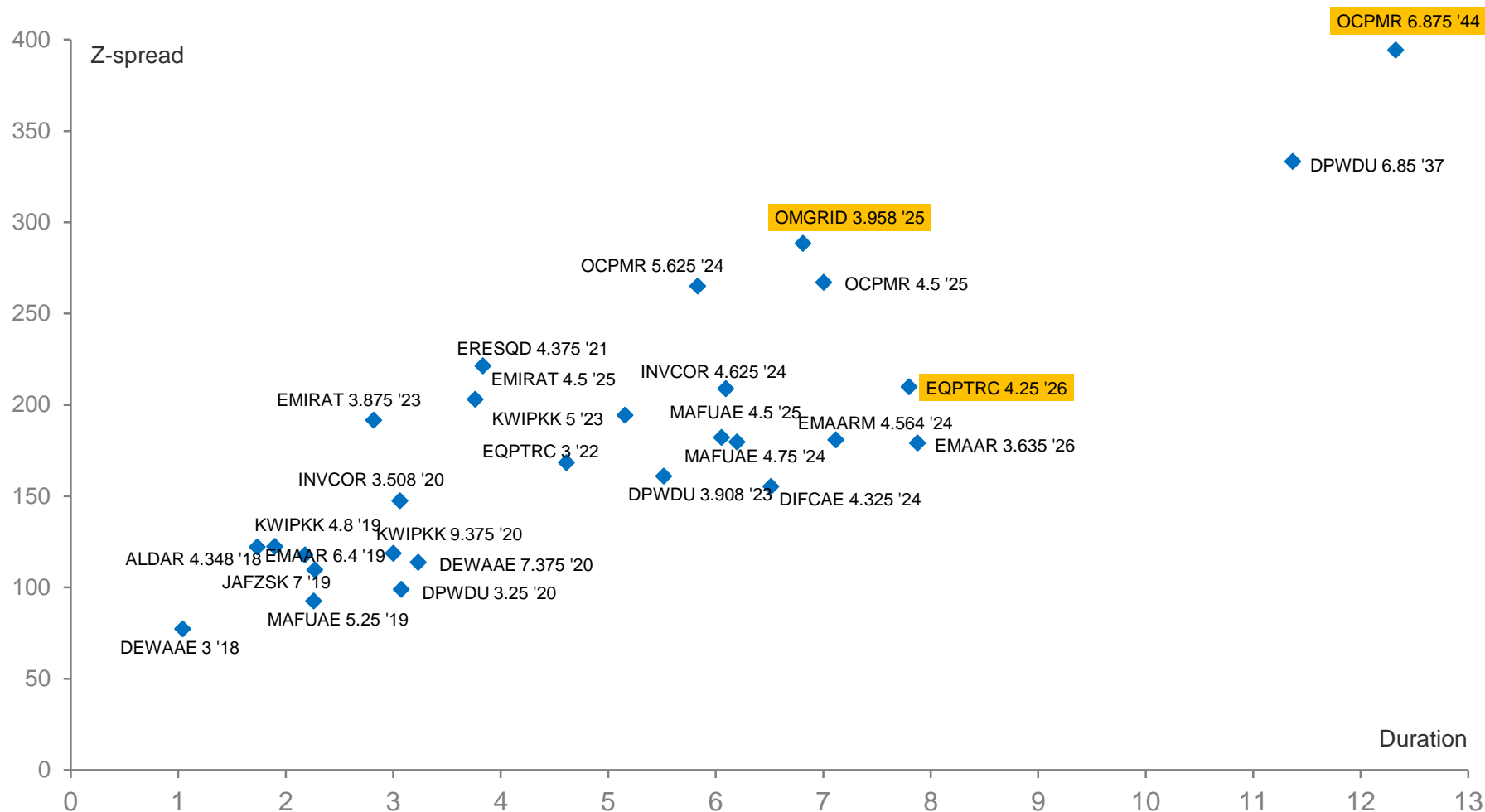
* 60% of SECO debt was extended by Saudi Sovereign

Company	Country	Rating	Benchmark	Z	Gross lev	Z per turn of leverage
OCF	Morocco	NA / BBB- / BBB-	OCPMR 5.625 '24	265.0	4.0	66.4
IPIC	Abu Dhabi	Aa2 / AA / AA	INTPET 5.5 '22	116.0	9.2	12.6
MUBADALA	Abu Dhabi	Aa2 / AA / AA	MUBAUH 3.25 '22	97.0	nm	
DAMAC	Dubai	NA / BB / NA	DAMACR 4.97 '19	368.6	1.0	362.7
EMAAR	Dubai	Baa3 / BBB- / NA	EMAAR 3.635 '26	178.9	3.4	52.1
MAF	Dubai	NA / BBB / BBB	MAFUA 4.75 '24	182.0	2.9	63.3
DARALA	Saudi Arabia	NA / NR / NA	DARALA 6.5 '19	484.3	8.2	59.1
ETISALAT	Abu Dhabi	Aa3 / AA- / A+u	ETISLT 3.5 '24	108.1	1.2	91.9
QTEL	Qatar	A2 / A- / A+	QTELQD 3.25 '23	133.3	3.5	37.9
DEWA	Dubai	Baa1 / NA / WD	DEWAAE 7.375 '20	113.7	1.2	95.2
DP WORLD	Dubai	Baa2 / NA / BBB	DPWDU 3.908 '23	160.8	3.7	43.1
TAQA	Abu Dhabi	A3 / A- / NA	TAQAUH 3.875 '24	150.1	9.8	15.4
SECO	Saudi Arabia	A2 / A- / A+	SECO 4 '24	124.3	12.8	9.7

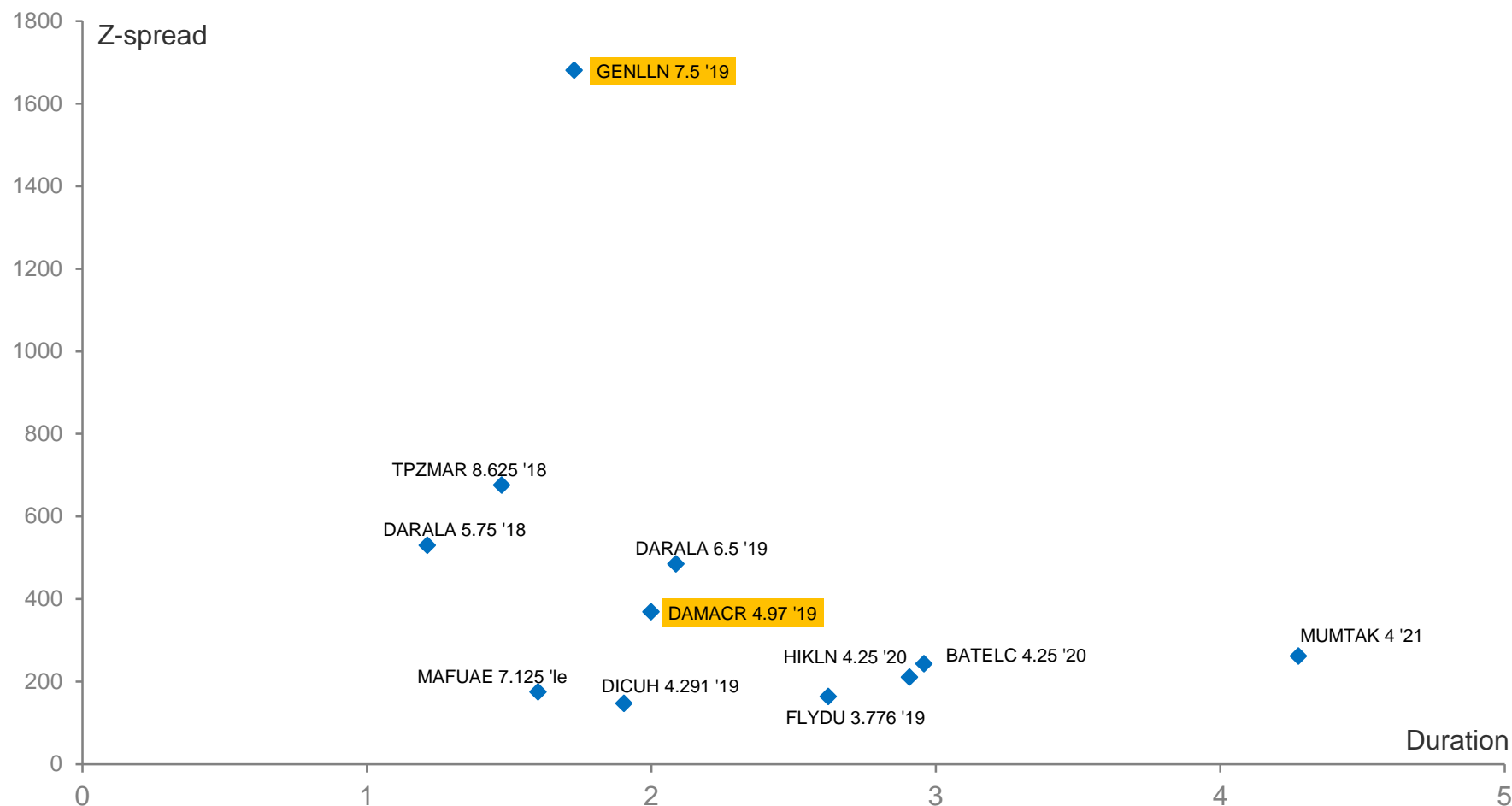
TAQA, Qtel, Dolphin, RPC stand out



Among low IG, the few bonds we liked seem to have played out (OCP, Equate, Emirat; Oman Grid)



Widest performing bond is Genel, an oil play in Kurdistan, Damac stands out in Dubai



Political noise to continue until ANC in December

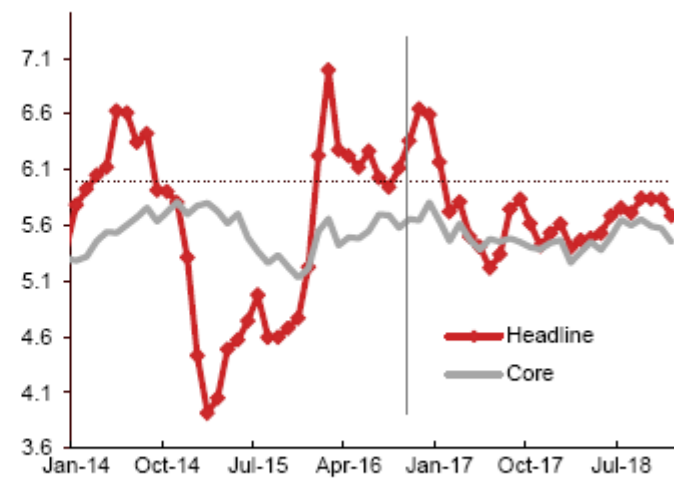
	Sovereign	Corporate	Banks	Sectors	Likes
South Africa	<ul style="list-style-type: none"> Heightened political risks up until the electoral conference of the African National Congress (ANC) in December, with the in-fighting within the ANC and the government to continue through the year Some recovery in headline real GDP growth expected, from 0.5% to 1% Moody's set to publish reviews on 7 April, 11 August, 24 November; S&P on 2 June and 24 November and Fitch around May/June and November/December. 	<ul style="list-style-type: none"> Corporates are likely to benefit from risk aversion towards Turkey, at least in 1H17 Substantial part of corporate profiles are non-South African, especially Sub-Saharan Africa (Nigeria etc), with its own economic and geopolitical risks, which might weigh on SA corporate profiles 	<ul style="list-style-type: none"> Strong banking sector, with total capital adequacy ratio up at 15.5% in Sept from 14.2% at end-15 Non-performing loans stood at 3.2% of total assets, barely above the trough of the current cycle of 3.1% 	<ul style="list-style-type: none"> Gold miners (Anglogold Ashanti, Gold Fields) account for a large chunk of the bond universe and should benefit from higher gold prices Possible S&P sovereign rating downgrade (currently rated BBB- with a negative outlook) and political noise are likely to also be the drivers of corporate performance in 2017 	<p>Naspers: High market value; exceeding \$80bn of Naspers' stakes in listed companies Tencent Holdings and Mail.ru; still IG</p> <p>MTN: Strong brand, attractive carry on the longer date bond; regulatory noise is the key risk</p> <p>Eskom: the widest corporate/quasi name, will be trading in line with sovereign risk</p>

Fig. 16: Details of the forecast

	2015	2016	2017	2018
Real GDP % y-o-y	1.3	0.5	1.0	1.6
Current account % GDP	-4.6	-4.2	-4.9	-5.2
PSCE % y-o-y*	10.2	6.1	6.8	7.1
Fiscal balance % GDP	-3.8	-3.4	-3.1	-3.0
FX reserves, gross USD bn*	41.4	47.5	48.0	48.5
CPI % y-o-y *	5.2	6.6	5.5	5.7
CPI % y-o-y **	4.6	6.3	5.6	5.7
Manufacturing output % y-o-y	0.0	0.2	0.5	2.7
Retail sales output % y-o-y	3.3	1.7	1.6	2.8
SARB policy rate %*	6.25	7.00	7.00	7.00
Gross govt debt %GDP	50.5	51.3	52.8	53.4
USDZAR*	16.47	14.75	15.50	16.50

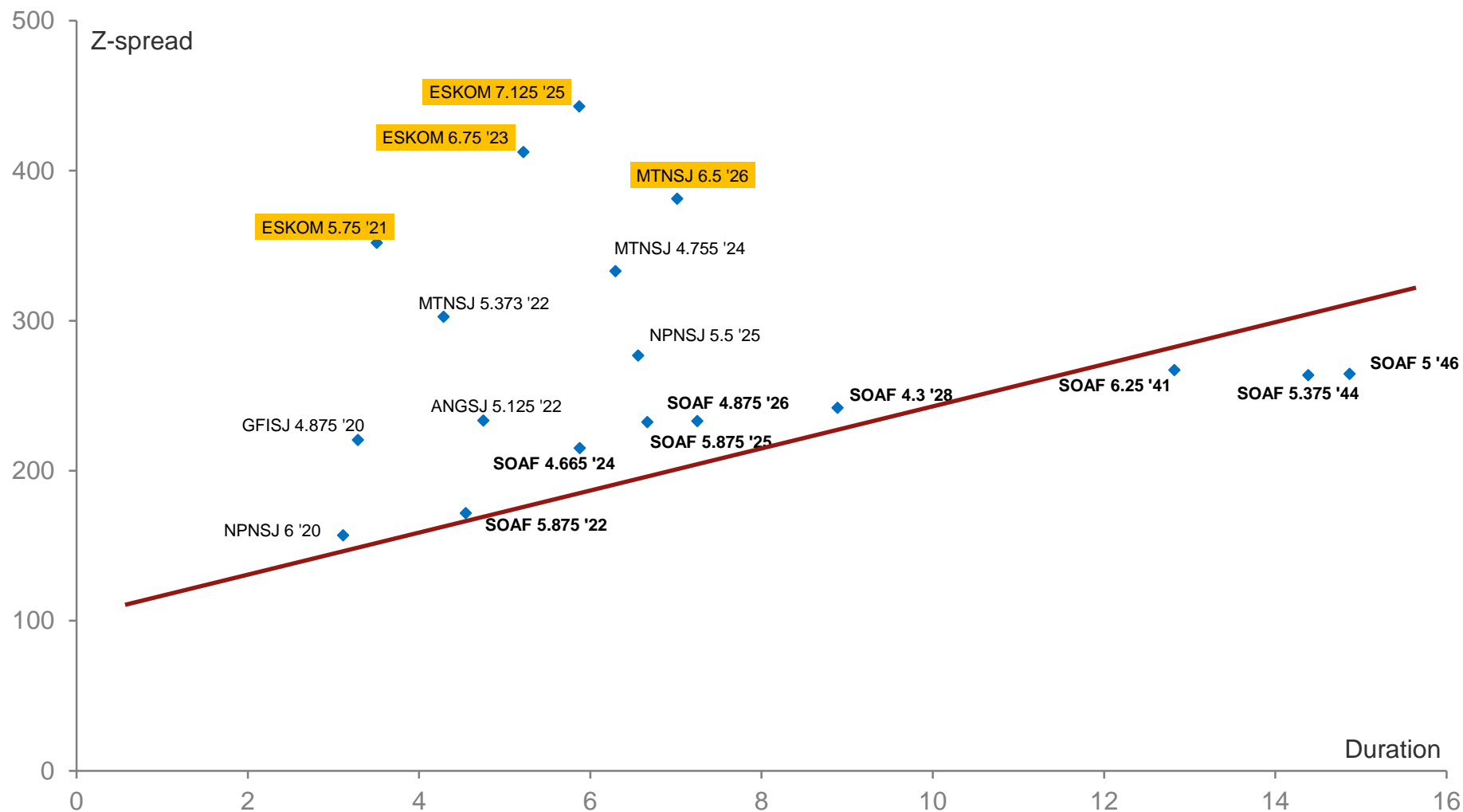
Notes: Fiscal years are for the April start. PSCE – Private sector credit extensions. *End of period. **Period average. Bold is actual data. Source: Nomura

Fig. 17: Inflation outlook



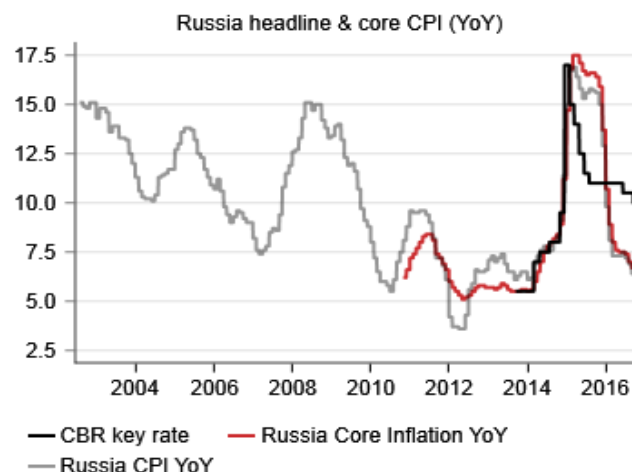
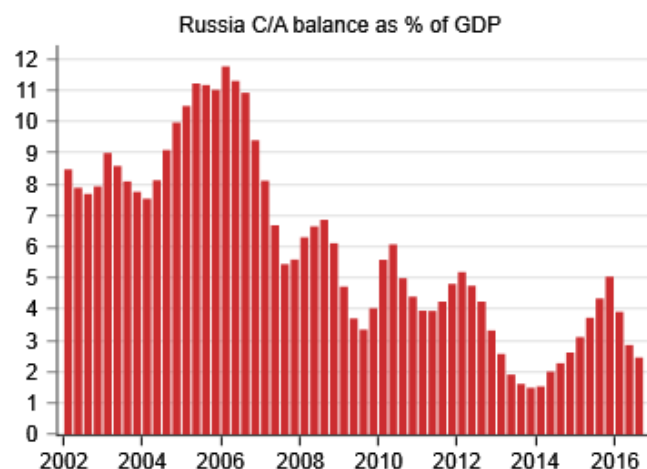
Source: Nomura.

Eskom stands out, together with MTN 26s, Naspers' solid profile and curve steepness has been attractive too

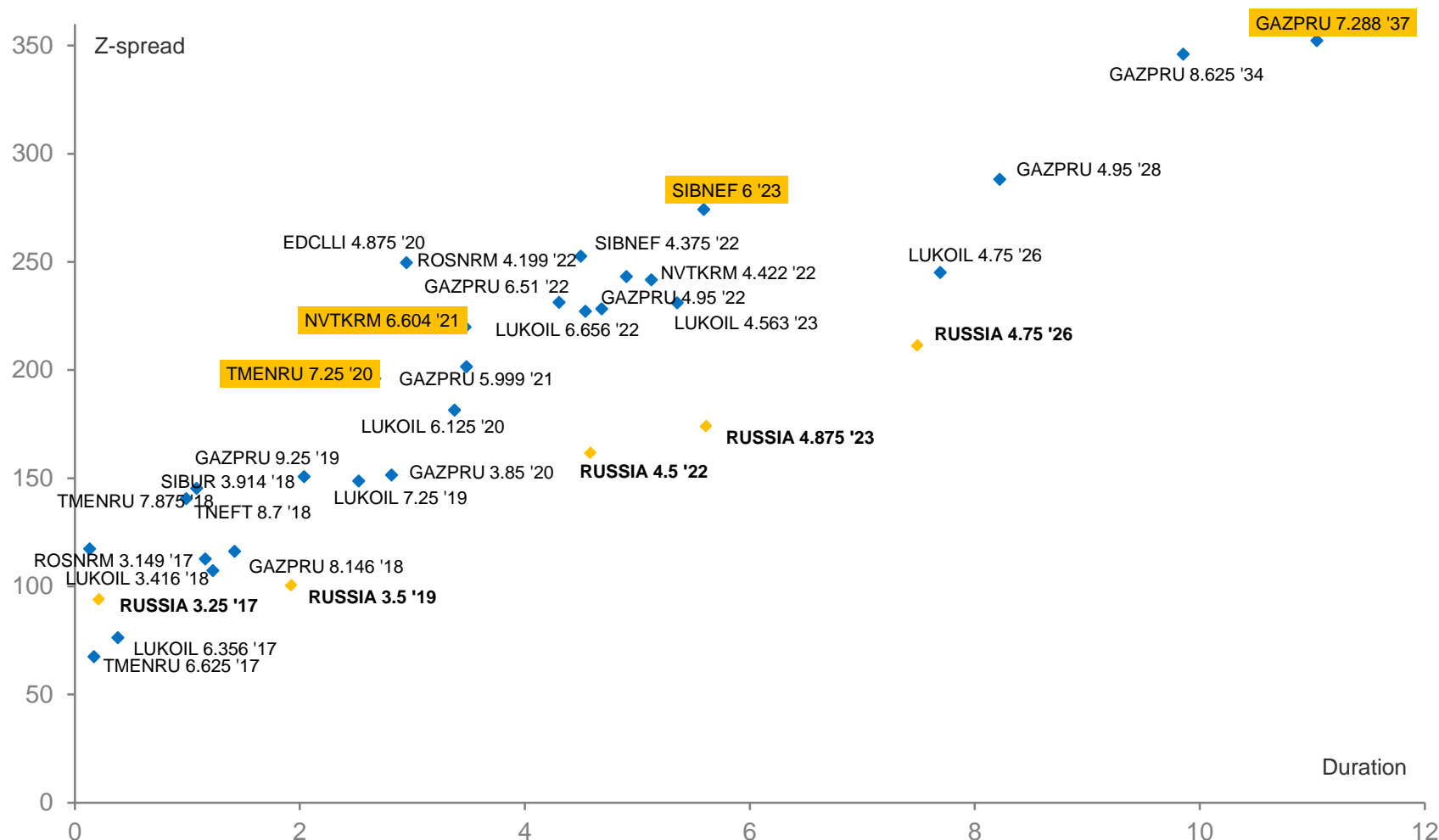


Positive supply redemption dynamic and better macro outlook but valuations reflect this

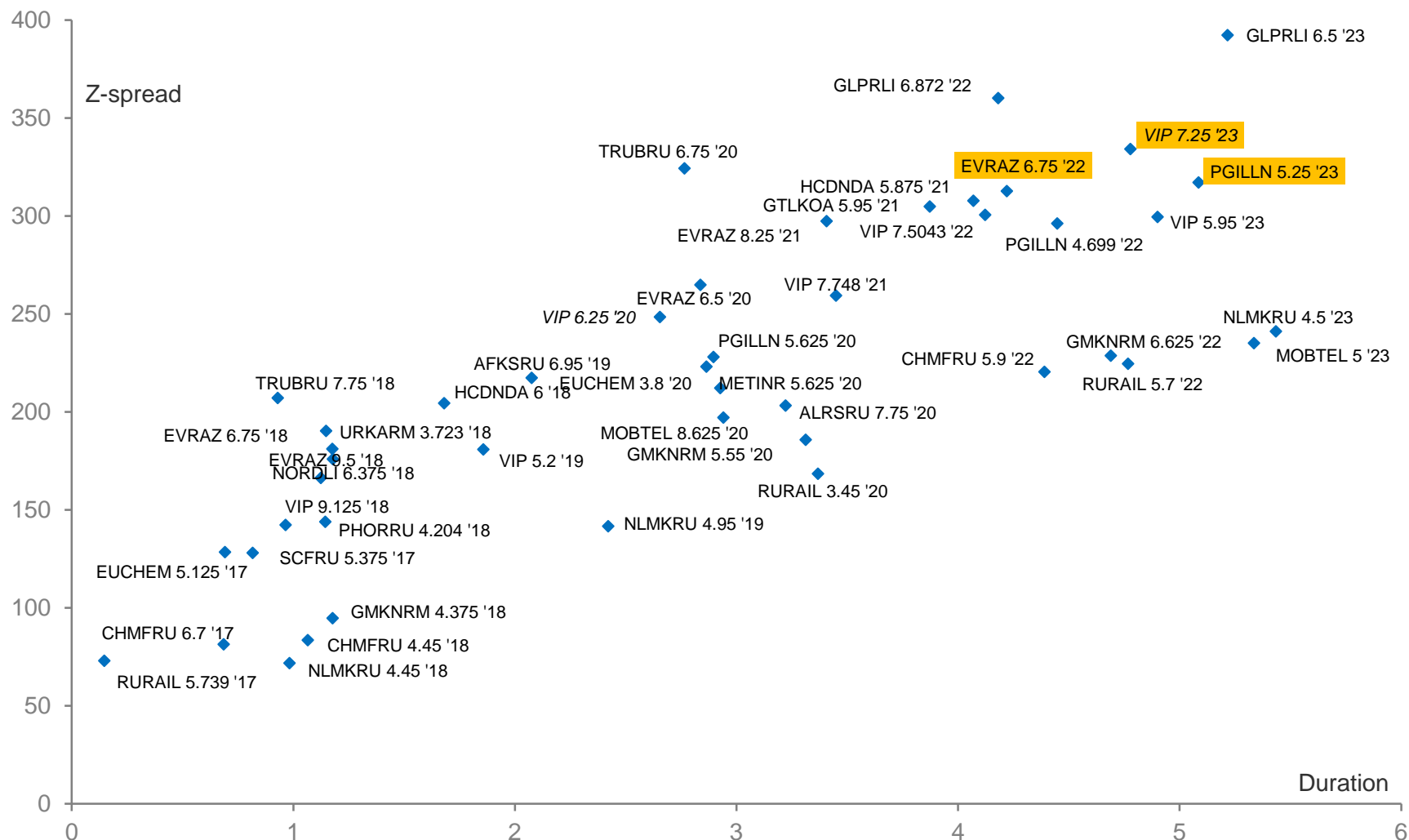
	Sovereign	Corporate	Banks	Sectors	Likes
Russia	<ul style="list-style-type: none"> • Better commodities outlook should benefit the economy • Favorable supply-redemption dynamics • Relative macroeconomic stability • Potential beneficiary of the US election/lifting sanctions • GDP growth expected to rebound to 1.3% in 2017 (from -1%) • Spreads unlikely to tighten much further after two strong years of performance, but select corporate and bank credits seen as defensive plays 	<ul style="list-style-type: none"> • Credit fundamentals worsened in 2016 amid the drop in energy and metal prices • Gross leverage remains very low, as RUB weakness collapsed opex and capex and preserved the margins for exporters • Weak RUB over the past two year benefitted Oil&Gas and Metals& Mining names with RUB opex and capex and largely FX revenues 	<ul style="list-style-type: none"> • Positive technicals due to negative net supply • More than 80% of the \$10bn of bank paper maturing in 2017 was issued by sanctioned names and will not be refinanced internationally • Improving fundamentals as non-performing assets seemed to trough in mid/late 2016 • CBR likely to cut rates further from current 10% (Nomura expectation is to 8.5% in 2017 and 7.5% in 2018) creating more room for margin improvement 	<ul style="list-style-type: none"> • Metals & Mining are likely to continue deleveraging, have solid cash and free cash flows and lower exposure to fiscal risks. They also have generally low short-term debt and access to local and international markets • Oil & Gas credits are more levered but likely to benefit from the recovery in oil prices • Telecoms positively exposed to RUB appreciation and vice versa • Transport segment mixed, state-owned segment still to benefit from government support while smaller private companies restructuring (Fesco, Brunswick) 	<p>VEB: Standalone profile remains weak, but Russian bank issues are tight and very few provide pick up over sovereign; expectation of continued state support</p> <p>VimpelCom: Earnings remain defensive, refinancing risk is low, and net leverage is moderate; the best exposure to VIP credit is via GTH.</p> <p>Sibneft: Preferred names in the energy sector</p> <p>Evraz: Play on improving local macro</p>



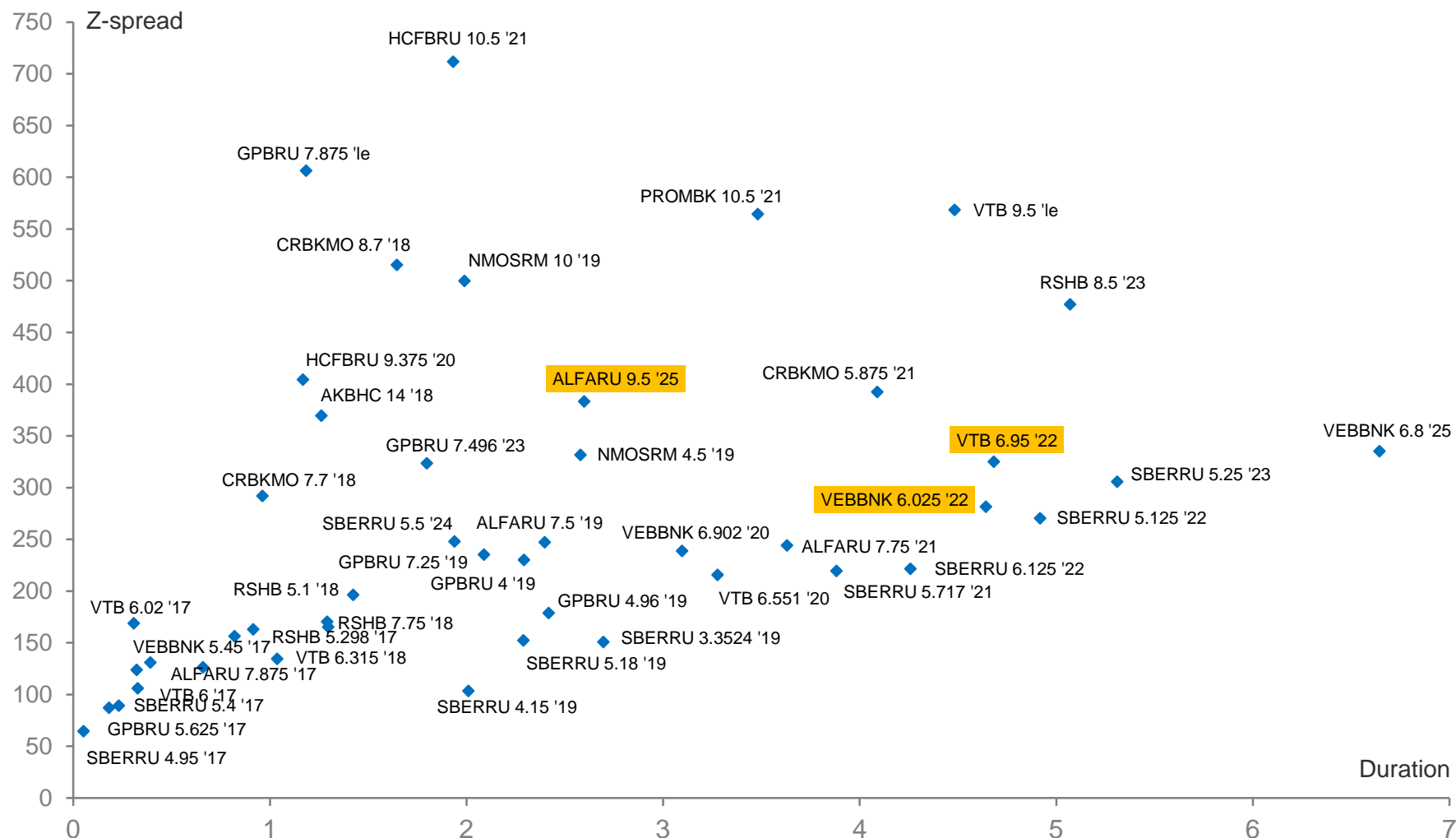
Russia O&G traded well over the past two years, little value left



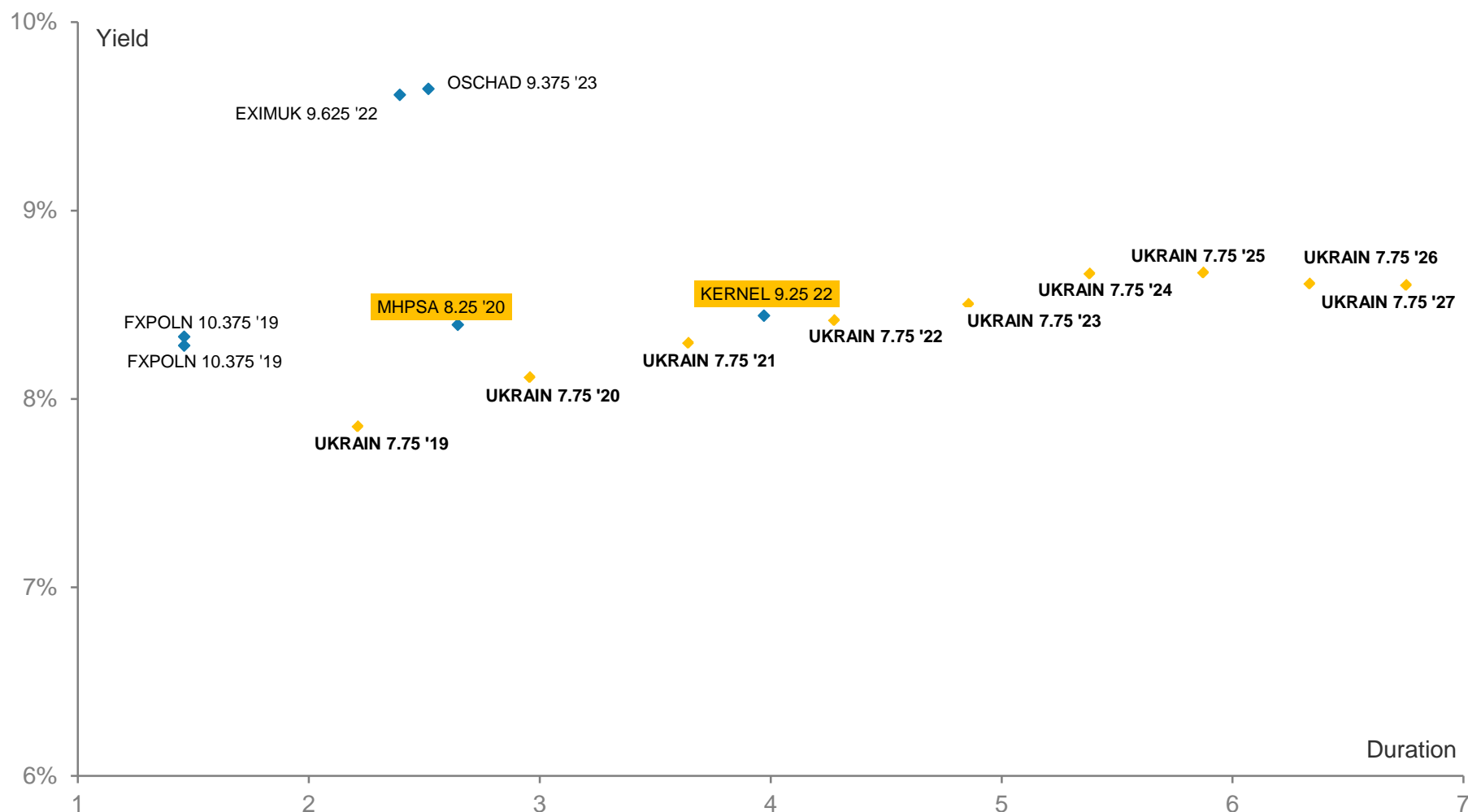
Play telcos (positive impact of RUB appreciation) via VIP 23, macro recovery via Evraz 22, new Polyus



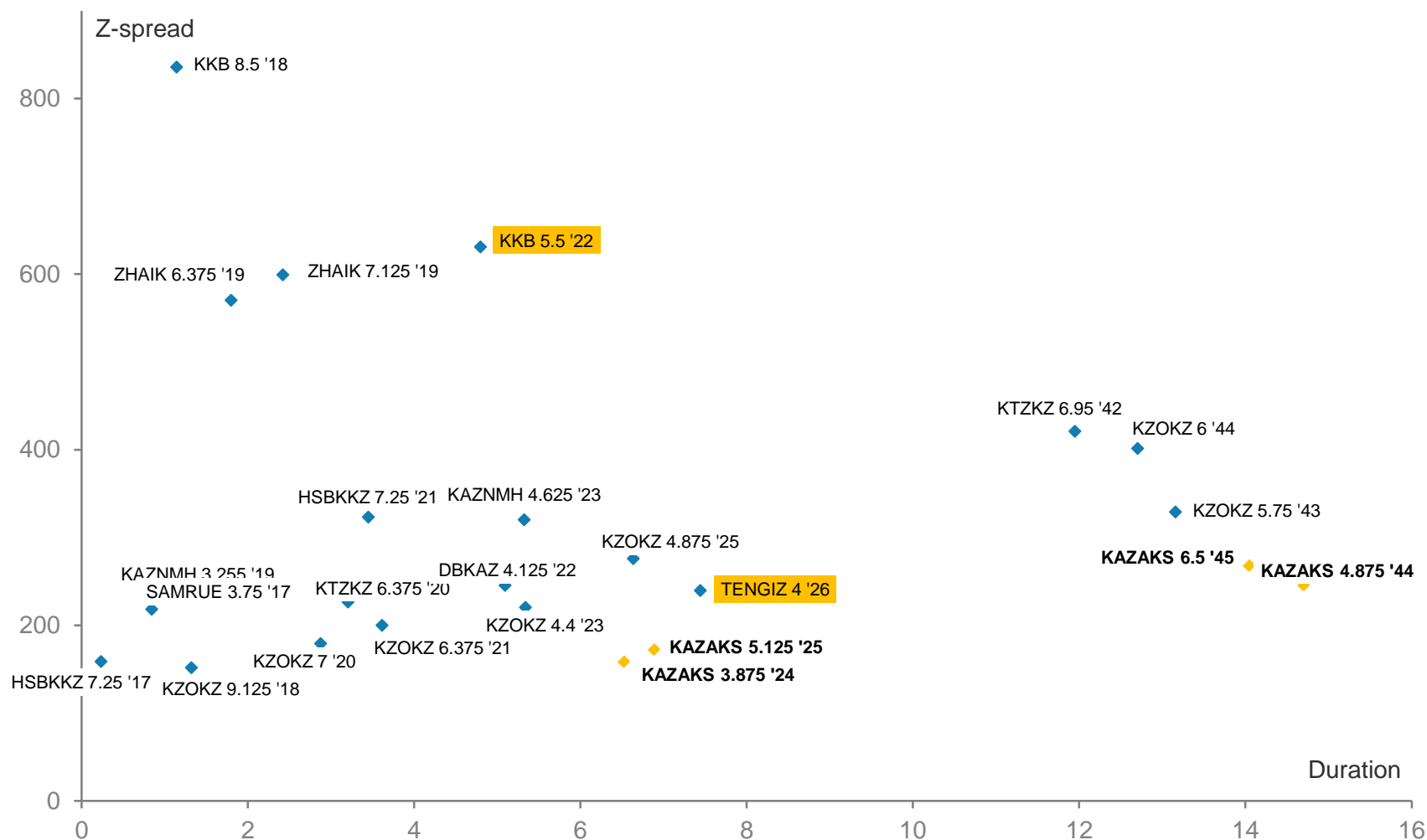
VEB and VTB old style T2 offer some pick up in the quasis , Alfa is most liked private name



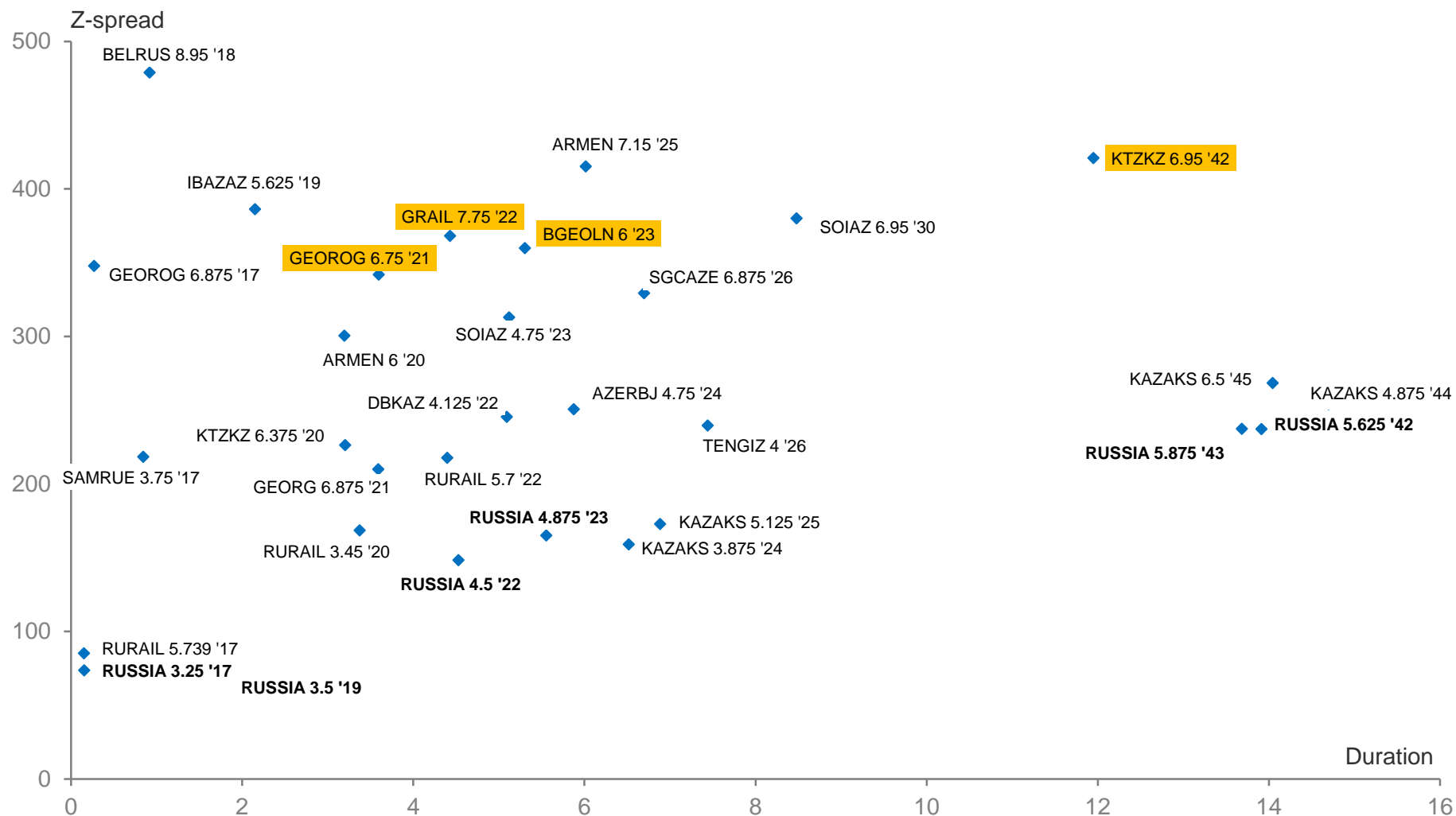
Spreads and yields tightened but the complex still offers high single digits



KKB is the top performer this year on credit-specific story, issuance risk (Samruk, Tengiz)



Short duration bonds in Georgia complex lagged and traded well into 2017



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